

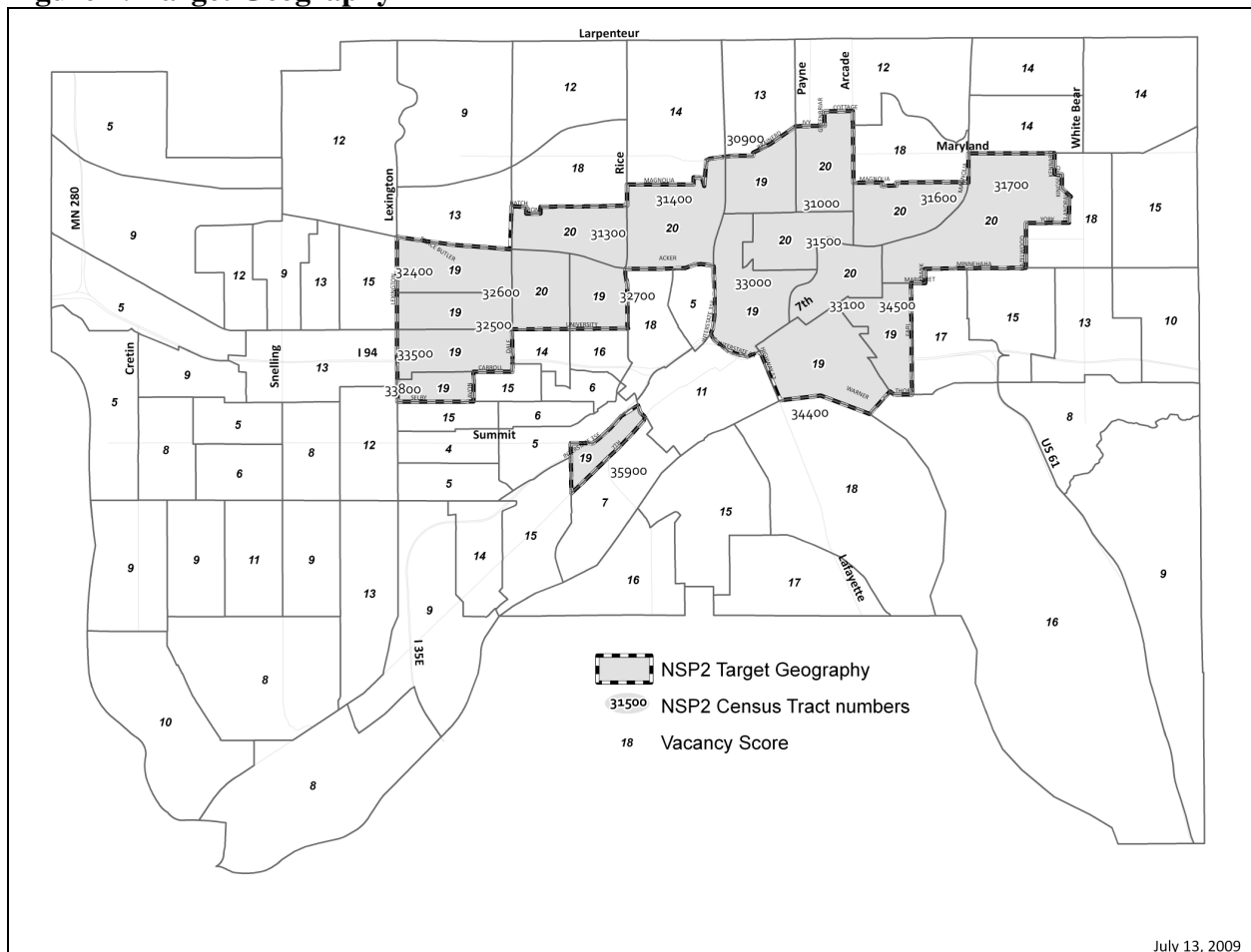
City of Saint Paul, Minnesota
 Application for Neighborhood Stabilization Program 2 Funding
NARRATIVE STATEMENT ADDRESSING FACTORS 1 - 6

Rating Factor 1: Need/Extent of the Problem

a. Target Geography

The Saint Paul Target Geography is comprised of 18 census tracts with an average “foreclosures with vacancy risk index score” of 19.44. These census tracts have been identified and submitted through the HUD NSP Need Factor website as application #749947900. The Target Geography census tracts and their corresponding index scores are listed in Appendix A and shown in Figure 1.

Figure 1: Target Geography



The NSP2 Target Geography has been selected in a manner that will allow NSP2 activities to holistically build upon and leverage the successes of recent and current neighborhood stabilization efforts undertaken by the City. Figure 2 shows the overlapping geographies of NSP2, NSP1 and the Invest Saint Paul Initiative (described later). The NSP2 Target Geography closely mirrors a subset of the City’s NSP1 area referred to as the “Market Collapse Area.” These neighborhoods have the largest concentration of vacant homes and foreclosures in the City. This concentration is evident in Figures 3 and 4. Though occupying only 13 percent of the

citywide land area, NSP2 Target Geography contains over 55 percent of the vacant homes and 40 percent of the foreclosed homes in the city. There are many blocks in this area containing more vacant houses than occupied houses. These were the first neighborhoods in Saint Paul hit by the housing collapse starting in 2006. Investor foreclosures started initially, followed quickly by many single-family homeowner foreclosures. Many properties in these neighborhoods have been haphazardly converted from original single-family and duplex structures to multi-family buildings that are operated as subpar rental units. There are many blighted properties unfit for habitation that should be demolished. The values in these neighborhoods continue to deteriorate as low-value investors continue to buy cheaply and fix cheaply.

Figure 2: Geographies of NSP2, NSP1, and the Invest Saint Paul Initiative

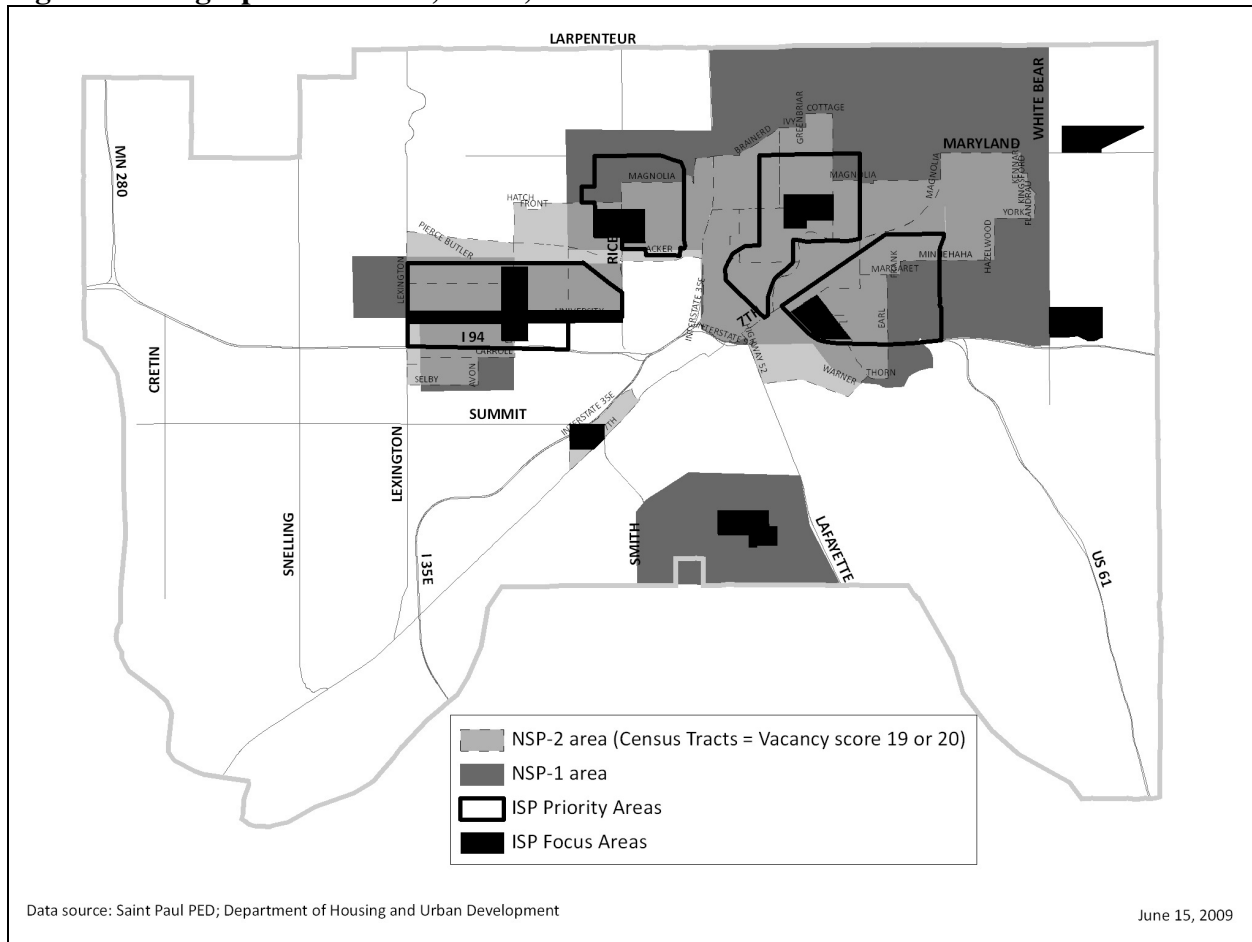
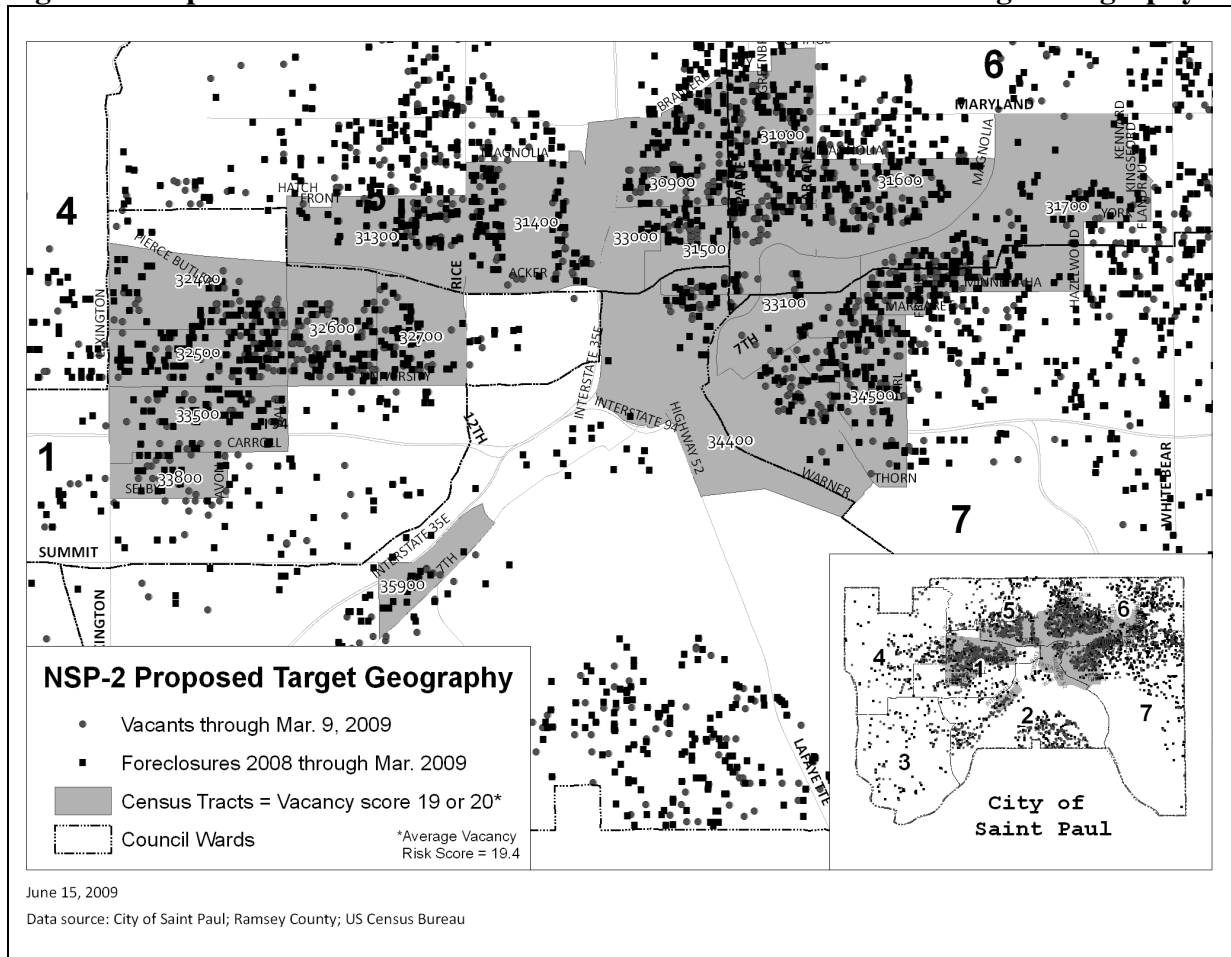


Figure 3: Map of Concentration of Vacant and Foreclosed Homes in Target Geography**Figure 4: Table of Concentration of Vacant and Foreclosed Homes in Target Geography**

			Time Period				
			2005	2006	2007	2008	2009(1 Q)
Citywide 35,963 acres	Vacant	Number	670	656	1,078	1,956	1,898
	Foreclosed	Number	480	1,241	1,888	2,224	476
NSP II Target Geography 4,889 acres*	Vacant	Number	332	377	628	1,136	1,052
		percent of citywide total	49.6%	57.5%	58.3%	58.1%	55.4%
	Foreclosed	Number	202	538	828	912	183
		percent of citywide total	42.1%	43.4%	43.9%	41.0%	38.4%

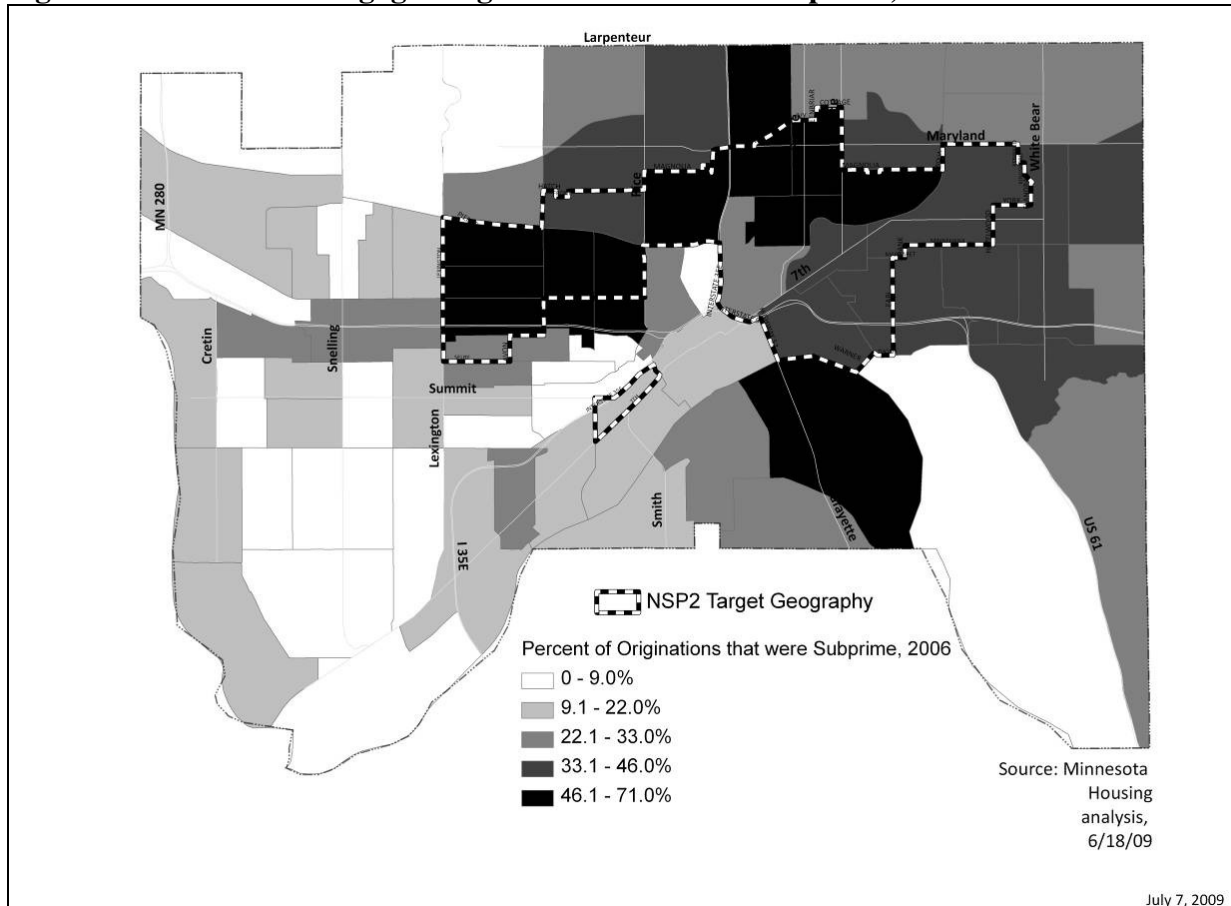
*The NSP2 Target Geography is 13.6 percent of the total citywide land area.

- A higher concentration of subprime originations in the NSP2 Target Geography compared to the city as a whole suggests a greater availability of credit with unfavorable terms in the Target Geography.

To understand the Target Geography's credit needs and how the need has contributed to the area's decline, an analysis completed by the Minnesota Housing Finance Agency (MHFA)¹ is relevant. MHFA examined three measures of credit, two of which are worth highlighting: the percentage of mortgage originations in each Minnesota census tract that was subprime, and the percentage of mortgage applications in each tract that resulted in an origination (prime and subprime combined). The agency did regression analysis to determine the extent to which either of these variables was correlated with the tract's vacancy and foreclosure indices.

Figure 5 shows the percent of all mortgage originations that were subprime in 2006 in Saint Paul census tracts. Subprime originations are based on first-lien, home-purchase loans for owner-occupied properties with 1-4 units. The map generally shows a higher concentration of subprime originations in the NSP2 Target Geography when compared to the City of Saint Paul as a whole. MHFA also found positive correlations between the vacancy and foreclosure indices of central city census tracts (those of Saint Paul and Minneapolis) and the percentage of subprime originations. This suggests a greater availability of credit with unfavorable terms in the NSP2 Target Geography perhaps leading to a higher number of foreclosures and vacancies.

Figure 5: Percent of Mortgage Originations that Were Subprime, 2006

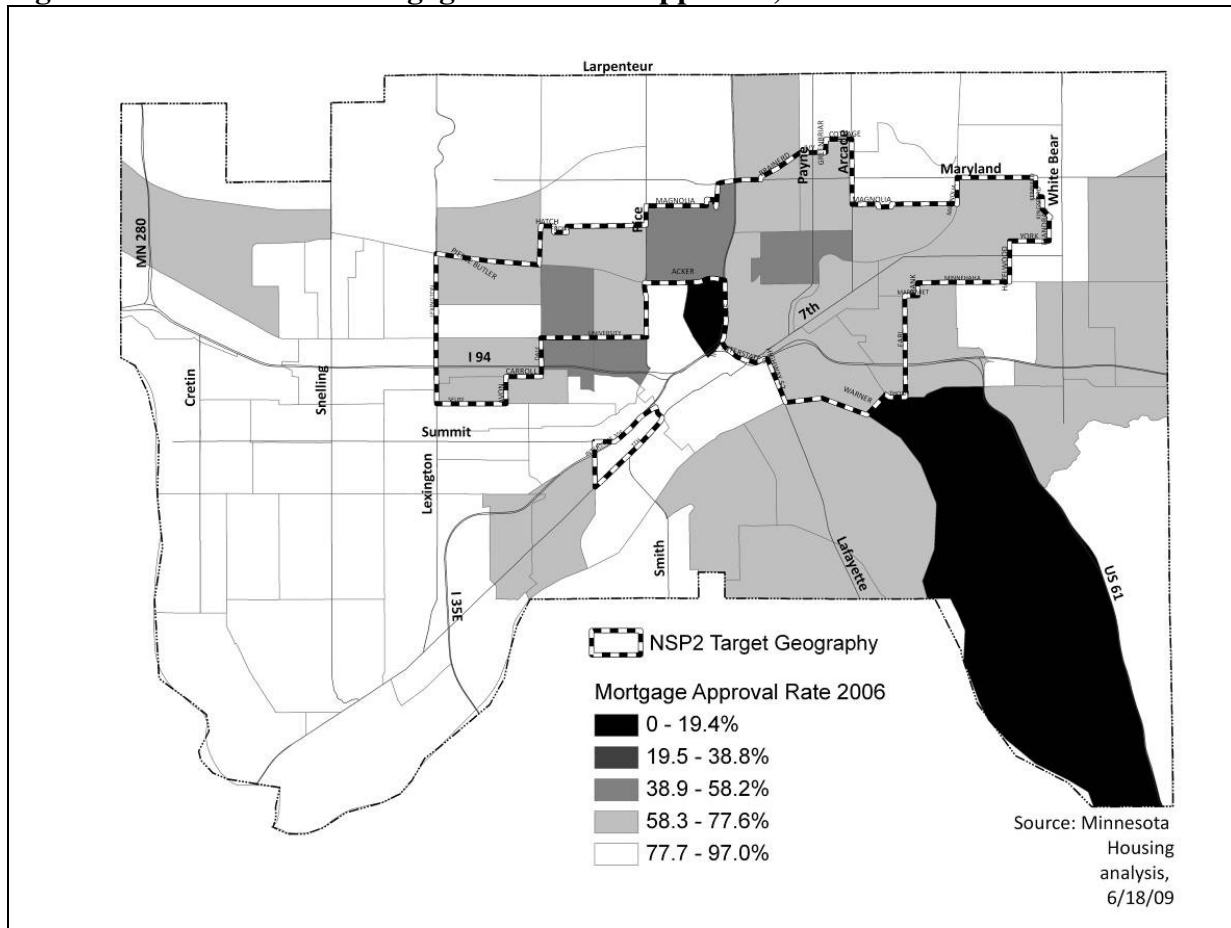


¹ The State of Minnesota's housing finance agency.

- *The NSP2 Target Geography had a lower mortgage approval rate compared to the city as a whole, suggesting that homebuyers had more difficulty accessing quality credit in the Target Geography.*

Figure 6 shows the percent of mortgage applications that resulted in an origination (prime and subprime combined) in 2006 in Saint Paul census tracts (called the “mortgage approval rate”). The approval rate is calculated by dividing the number of originated loans by the number of fully-processed loans, which includes originated loans, loan applications that were denied by the financial institution, and loan requests that did not receive a pre-approval. The analysis applied to first-lien, home-purchase loans for owner-occupied 1-4 unit properties. Generally speaking, NSP2 Target Geography census tracts have lower approval rates than tracts in other parts of Saint Paul. MHFA also found a negative correlation between the vacancy and foreclosure indices of central city census tracts and the mortgage approval rates in them. MHFA concludes that in these “high foreclosure and vacancy areas, lenders are more likely to deny a mortgage application. Thus, access to favorable credit is a concern in the urban core.”

Figure 6: Percent of All Mortgages that Were Approved, 2006



Rating Factor 1: Need/Extent of the Problem
b. Market Conditions and Demand Factors

(1) Market Absorption Projection

- *It is unlikely that the market on its own will absorb the supply of abandoned and foreclosed properties in the NSP2 Target Geography within three years.*
- *Compared to the city as a whole, a market intervention in the NSP2 Target Geography is more needed given that this area has experienced a steeper decline in home sales and quicker ascent in the number of vacant and foreclosed homes over the last three years.*

Given the market trends of the last five years, it is unlikely that the market on its own will absorb the supply of abandoned and foreclosed properties in the NSP2 Target Geography within the next three years. Using 2008 as a snapshot of the housing market, the NSP2 Target Geography had 314 home sales. The Target Geography also had 912 foreclosures and 1,136 vacant properties. At the 2008 sales rate, it would take 6.5 years for the market to absorb the supply of vacant and foreclosed properties, which does not include the market supply of other homes for sale in the Target Geography. From May 2007 to May 2009 there has been an average of a 9.7 month (294 days) supply of homes for sale citywide, not including vacant or foreclosed properties. To absorb the 2008 supply of vacant and foreclosed homes alone within the next three years, sales would have to increase by 218 percent to 683 sales per year in the Target Geography. That level of sales has not occurred since 2005. Given recent trends, the market is unlikely to see this level of sales increase on its own.

The general trend in the NSP2 Target Geography since 2005 is decreasing sales, while foreclosures, vacant houses, and demolitions have been increasing, as shown in Figure 7. Foreclosures surpassed sales in early 2006 and by mid-2006 the number of vacant houses had surpassed sales as well. In mid-2007 vacant homes in the NSP2 Target Geography surpassed the number of foreclosures. Additionally, the number of demolitions in the Target Geography has been increasing steadily, with an increase of 222 percent between 2007 and 2008. This illustrates that as sales have decreased and foreclosures have increased, the foreclosed homes have not resold and have become vacant, some for an extended period, resulting in substantial deferred maintenance and, ultimately, demolition.

These trends are much more severe in the Target Geography than in the city as a whole, as shown in Figure 8. Citywide, sales have not had as steep of a decline, foreclosures did not surpass sales until late 2006-early 2007, and vacant homes did not surpass sales until mid 2007.

Figure 7: NSP2 Target Geography Housing Market

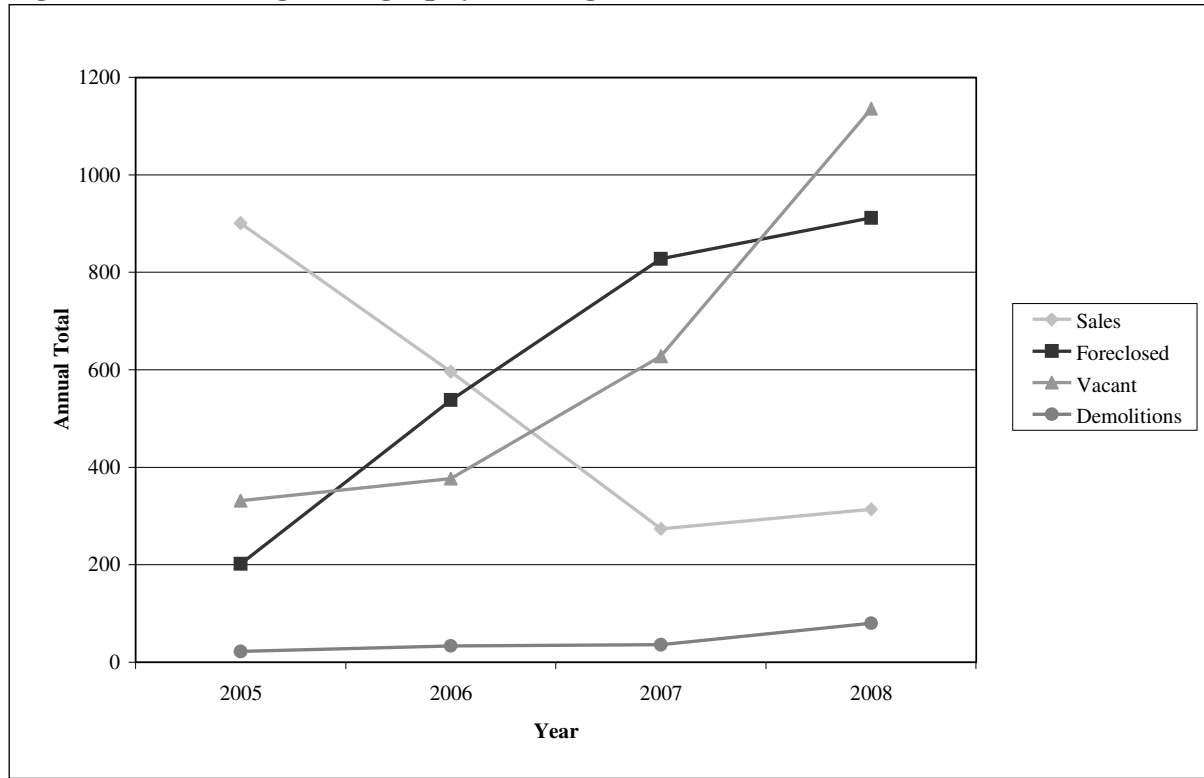
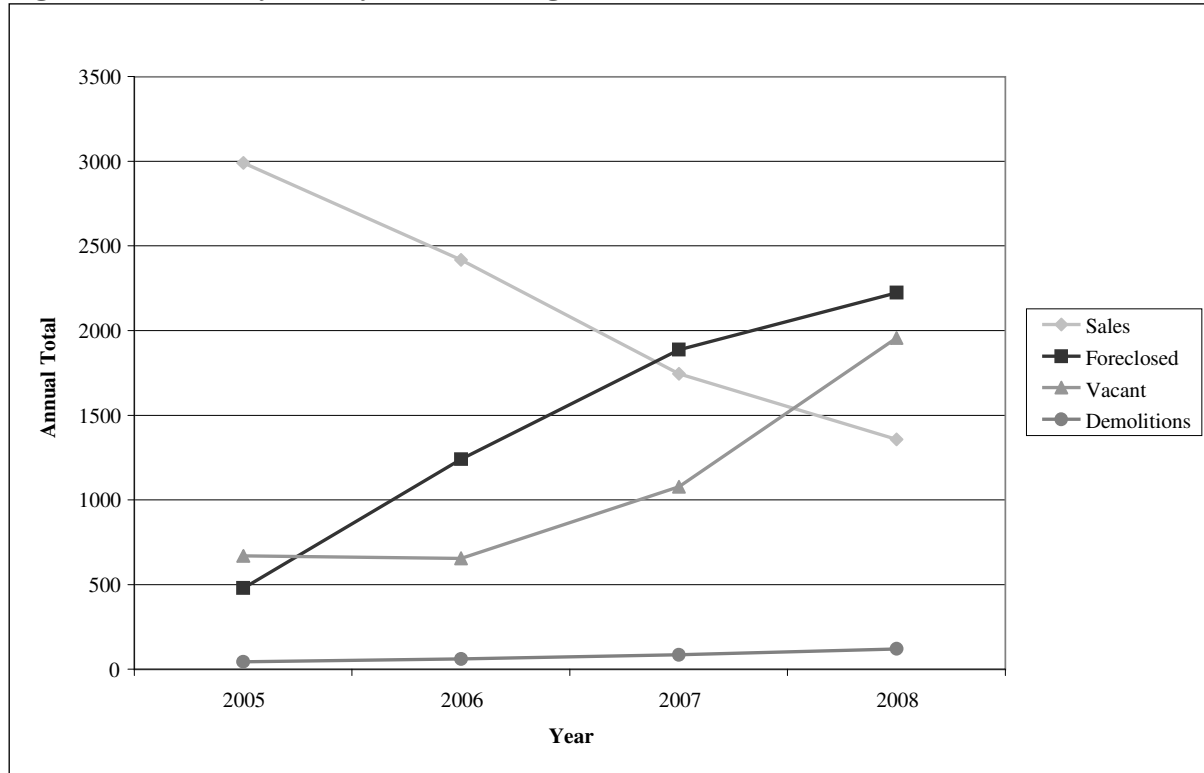


Figure 8: Summary of Citywide Housing Market



The City of Saint Paul's population in the Target Geography is estimated to grow moderately by two percent (from 94,900 to 97,300) by 2020 according to the City's Comprehensive Plan.

Employment in the Target Geography is expected to grow at a faster pace, by 17 percent (from 29,900 to 34,900), during the same time period. Much of this growth is likely to happen along University Avenue and in downtown after the completion of the Central Corridor Light Rail Line project, which is expected to be operational in 2014. This growth should help to reoccupy some of the vacant and foreclosed homes.

NSP2 funds will allow the City to help to stabilize home values in the Target Geography by decreasing the concentration of vacant and foreclosed homes. The funds will make the Target Geography more desirable to home buyers by removing the most blighted homes and offering affordable rehabilitated homes at a high standard of quality. The demolitions will also reduce the supply of available properties and thus help to stabilize prices and the city's tax base. NSP2 funds will also allow the city to stimulate market demand by offering financial assistance to potential home buyers.

(2) Over-building, Over-valuation, Loss of Employment

- *None of the following are critical factors causing abandonment or foreclosure in the Saint Paul Target Geography: Over-building of housing units, over-valuation of housing units, or loss of employment.*

Over-building

- *The small relative growth of Saint Paul's housing stock in recent years demonstrates that over-building has not been a critical problem leading to the abandonment and foreclosure crises in the city.*

According to city records, the City of Saint Paul experienced a net increase of 7,028 housing units between 2000 and 2007. This net change is equal to the total number of new homes receiving permits added to the total number of substantially rehabilitated vacant units, minus the total number of homes demolished. This net change only represents a 5.7 percent growth in the housing stock from 2000 to 2007. See Figure 9 below.

Figure 9: Growth in Housing Units, 2000-2007

	Net Change in Housing Units, 2000-2007	Housing Units in 2000	Percent of Total (Growth)
Saint Paul	7,028	115,713	5.7%

Sources: City of Saint Paul records - Department of Planning & Economic Development and Safety & Inspections, and Census 2000.

According to NuWire Investor, the cities of Las Vegas, NV, and Phoenix, AZ were the nation's top two cities with overbuilt housing markets in 2007. The table below compares the total number of new housing permits issued in 2005 and 2006 in both cities against the total number of housing units in both cities during the previous year (2004), as well as shows the percent of total housing units represented by the new homes built. The corresponding numbers for the City of Saint Paul are listed as well. The numbers illustrate that overbuilding has not been a critical problem leading to the abandonment and foreclosure crises in Saint Paul.

Figure 10: Growth as a Percentage of Total Housing Stock, 2005-2006

	New Housing Permits Issued in 2005-06	Total Housing Stock (Units), 2004	Percent of Total (Growth)
Las Vegas	72,965	219,109	25.0%
Phoenix	106,987	537,985	16.6%
<i>versus</i>			
Saint Paul⁴	1,701	116,772	1.4%

Sources: <http://www.nuwireinvestor.com/articles/top-5-overbuilt-us-markets-in-2007-51243.aspx>, City of Saint Paul records, and American Community Survey, 2004

Over-valuation

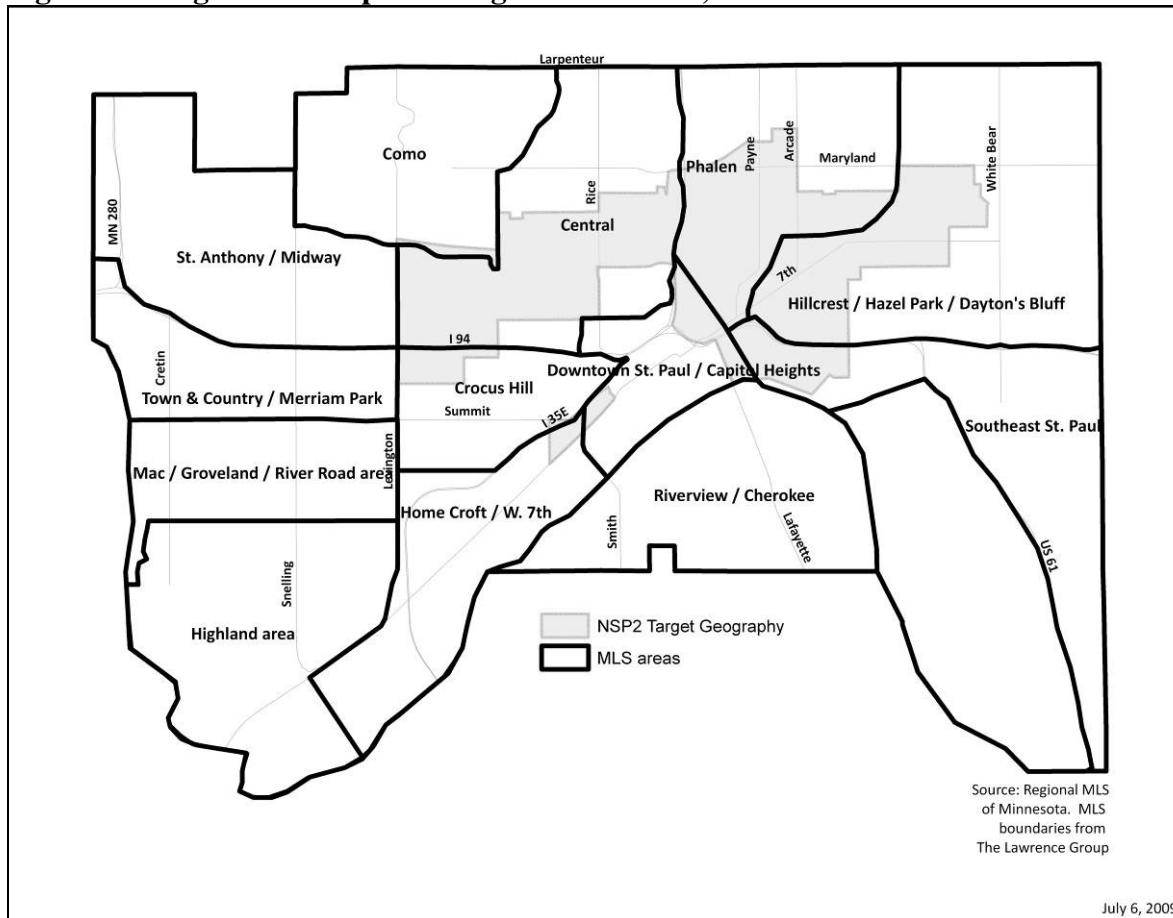
- *The greater relative drop in housing values in the NSP2 Target Geography compared to the city as whole results from its higher concentration of vacant and foreclosed properties, which depresses values across a neighborhood, rather than from a market correction to overvalued properties.*

As can be seen in Figure 11, below, the City of Saint Paul's median home sales price was 15 percent lower than the 13-County Area's median home sales price in 2005, while it was 26 percent lower than the 13-County Area's median in 2008. The fact that the city's median sales price was much lower than the regional median suggests that overvaluation has not been a key contributor to the problem in Saint Paul. Median housing values in the Saint Paul Area Association of Realtors Multiple Listing Services' (MLS) "neighborhood areas" that most closely correspond to Saint Paul's NSP2 Target Geography have an even greater disparity with the 13-County Area's median housing value (see Figure 12). Median housing values in these MLS areas have dropped from between 20-30 percent lower than the regional median in 2005 to between 30-70 percent lower than the regional median in 2008. The greater drop in median values in these neighborhoods is attributable to the high concentration of vacant and foreclosed properties in these neighborhoods, which depresses values across the neighborhood, rather than the result of some intrinsic market correction to overvalued properties.

Figure 11: Median Home Sales Prices, 2005-2008

Median Home Sales Price, Per Year					
	2005	2006	2007	2008	percent change
13-County Area	\$228,900	\$230,000	\$225,000	\$195,000	-14.8%
City of Saint Paul	\$195,000	\$199,000	\$190,000	\$145,200	-25.5%
• Phalen	\$177,675	\$176,450	\$157,250	\$89,000	-49.9%
• Hillcrest/Hazel Park/Dayton's Bluff	\$178,950	\$176,000	\$162,500	\$93,250	-47.9%
• Riverview Cherokee	\$182,250	\$187,686	\$182,700	\$105,000	-42.4%
• Homecroft/W. 7th	\$179,000	\$180,290	\$180,000	\$134,500	-24.9%
• Central	\$160,000	\$153,000	\$130,000	\$55,000	-65.6%

Source: Saint Paul Area Association of Realtors, http://www.spaar.com/public/index.php?strWebAction=market_info_category&intCategoryID=4

Figure 12: Regional Multiple Listing Service Areas, Saint Paul

To further illustrate how a large reduction in housing values result from a high concentration of foreclosures in the proposed Target Geography, we draw upon the findings and methodology of a highly-referenced study on the subject, “The External Cost of Foreclosure: The Impact of Single-Family Mortgage Foreclosures on Property Values,” by Dan Immergluck and Geoff Smith.² The Immergluck/Smith study used a statistical regression analysis to determine the effect of various 1-4 unit housing attributes on housing values. The study was able to statistically isolate the effect of a single foreclosure on property values within 1/8 mile of the foreclosed property.

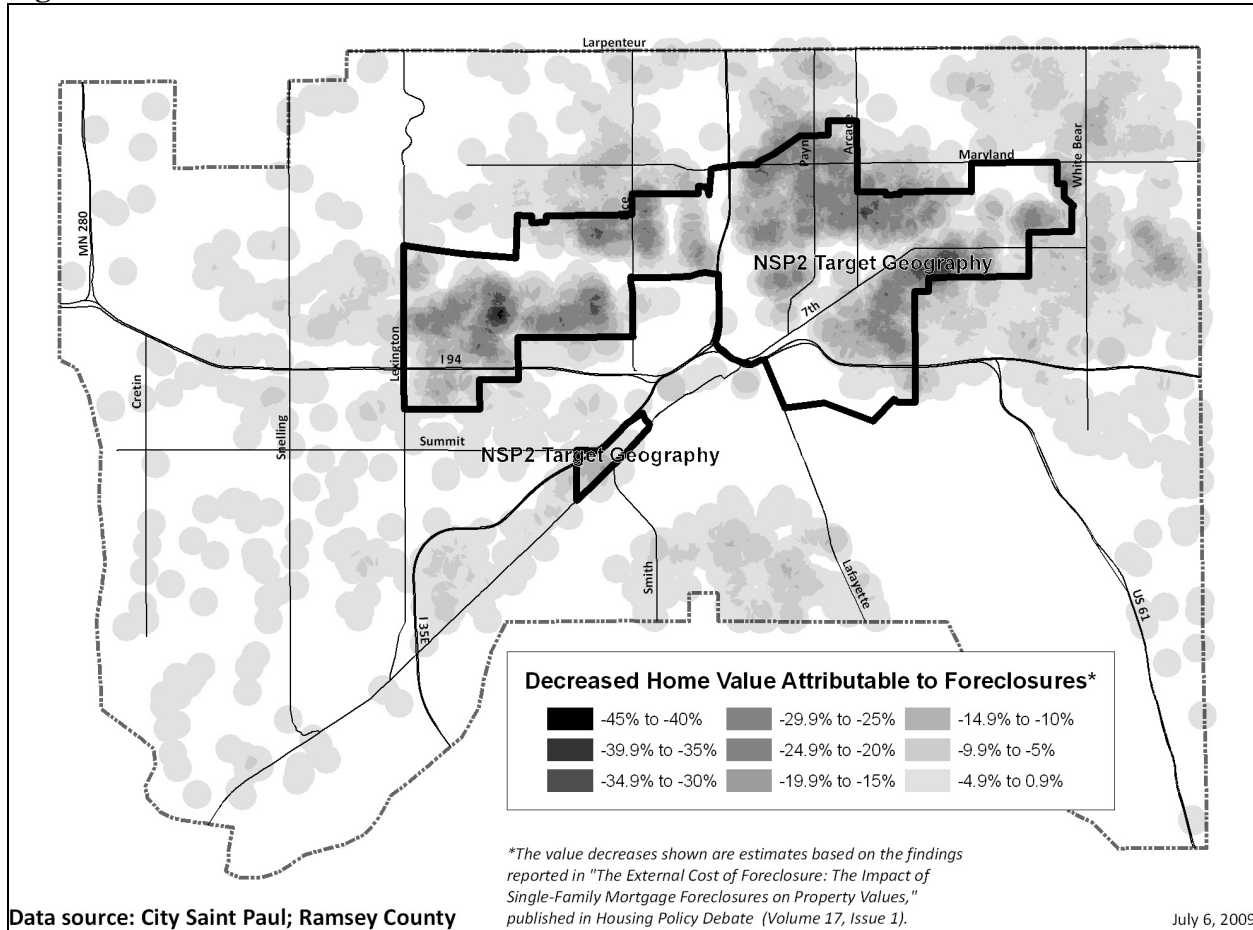
The study found in its most conservative estimates that each foreclosure within 1/8 mile reduced property values of 1-4 unit properties by 0.9 percent. Every additional foreclosure within 1/8 mile reduced values another 0.9 percent. However, the study found that a foreclosure in low- and moderate-income areas reduced property values to a greater extent than higher income areas. They found a reduction in these neighborhoods of 1.44 percent for 1-4 unit properties within 1/8 mile of a foreclosure.

Applying the Immergluck/Smith methodology citywide shows that foreclosures have resulted in total property value reductions of between \$129 and \$206 million in the NSP2 Target Geography. Homes in the Target Geography have lost up to 45 percent of their values due to the

² Published in *Housing Policy Debate* (Volume 17, Issue 1).

concentration of foreclosures in the area. The analysis is based on foreclosures between January 2008 and April 2009, and the 2008 assessed home values from Ramsey County. Figure 13, below, illustrates the effect of foreclosures on home values and concentration within the NSP2 Target Geography.

Figure 13: Estimated Reduction in Home Values to Area Foreclosures



Loss of Employment

- *There is no evidence to suggest that residents of the NSP2 Target Geography have disproportionately suffered from the impact of job loss, suggesting unemployment has not been a critical factor causing abandonment and foreclosure.*

According to Minnesota Unemployment Statistics and Local Area Unemployment Statistics Data (LAUS)³, Saint Paul's unemployment rate has been higher than that at the county level, while keeping pace with the state and national unemployment rates (Figure 14). While Minnesota 3D Web Mapping⁴, which draws from Local Employment Dynamics (LED) data, indicates that most people who live in the Target Geography either work in those same census tracts, or within the city limits, there is no data available at the census block group or tract level to suggest that unemployment or job losses are overwhelmingly located in the NSP2 Target Geography. While Ramsey County suffered mass layoffs of nearly 8,000 people, making it the fourth highest

³ <http://www.deed.state.mn.us/lmi/tools/laus/Default.aspx>

⁴ map.deed.state.mn.us/m3d

number of layoffs by county in the state and the third greatest number of firms laying off workers in 2008, there is no data to suggest that disproportionate losses were experienced in the Target Geography. In addition, the Twin Cities metropolitan area saw layoffs outpace new hires in 2008. Turnover in the metropolitan area has hovered at 10 percent over the last three years. As the number of available jobs decreased, job vacancies in Minnesota fell 38.6 percent from one year ago, during fourth quarter 2008. All but one occupational group showed declines in the number of job vacancies compared to last year. About 18,100 open positions, or 58 percent, were located in the Twin Cities seven-county metropolitan area. Overall, there were 5.7 unemployed workers for each job vacancy statewide. This ratio indicates that the fourth quarter 2008 labor market was the least favorable for job seekers during the history of the job vacancy series dating back to fourth quarter 2000.

Figure 14: Annual Average Unemployment Rate, 2005 through May 2009*

	2005	2006	2007	2008	2009**
Saint Paul	4.4%	4.3%	4.7%	5.5%	8%
Ramsey County	4.0%	3.9%	4.4%	5.2%	7.70%
State of Minnesota	4.2%	4.1%	4.6%	5.4%	8.40%
United States	5.1%	4.6%	4.6%	5.8%	8.8%

* <http://www.deed.state.mn.us/lmi/tools/laus/Default.aspx>

** Represents five month, not seasonally adjusted average

(3) Income Characteristics of Households in Target Geography

- *With some small exceptions, per capita income tends to be lower in the NSP2 Target Geography compared to the city as a whole.*
- *There is a slight concentration of households earning up to 50 percent and up to 80 percent of the Area Median Income (AMI) in the NSP2 Proposed Geography versus the city as a whole.*
- *There is a market for high quality housing choices for households earning up to 50 percent, 80 percent, and 120 percent of the AMI in the NSP2 Target Geography.*
- *A household earning up to 50 percent of the AMI could be considered cost-burdened if it owned a median-priced single-family, or townhome property in the NSP2 Target Geography.*

Figure 15 is a map of Estimated Per Capita Income in the City of Saint Paul, by census block group for the year 2007. The data comes from Geolytics, a firm that models block group-level estimates about the U.S. population based on multiple inputs. With several exceptions as noted on the map, per capita income tends to be lower in the northern two quadrants of the city, including the NSP2 Target Geography.

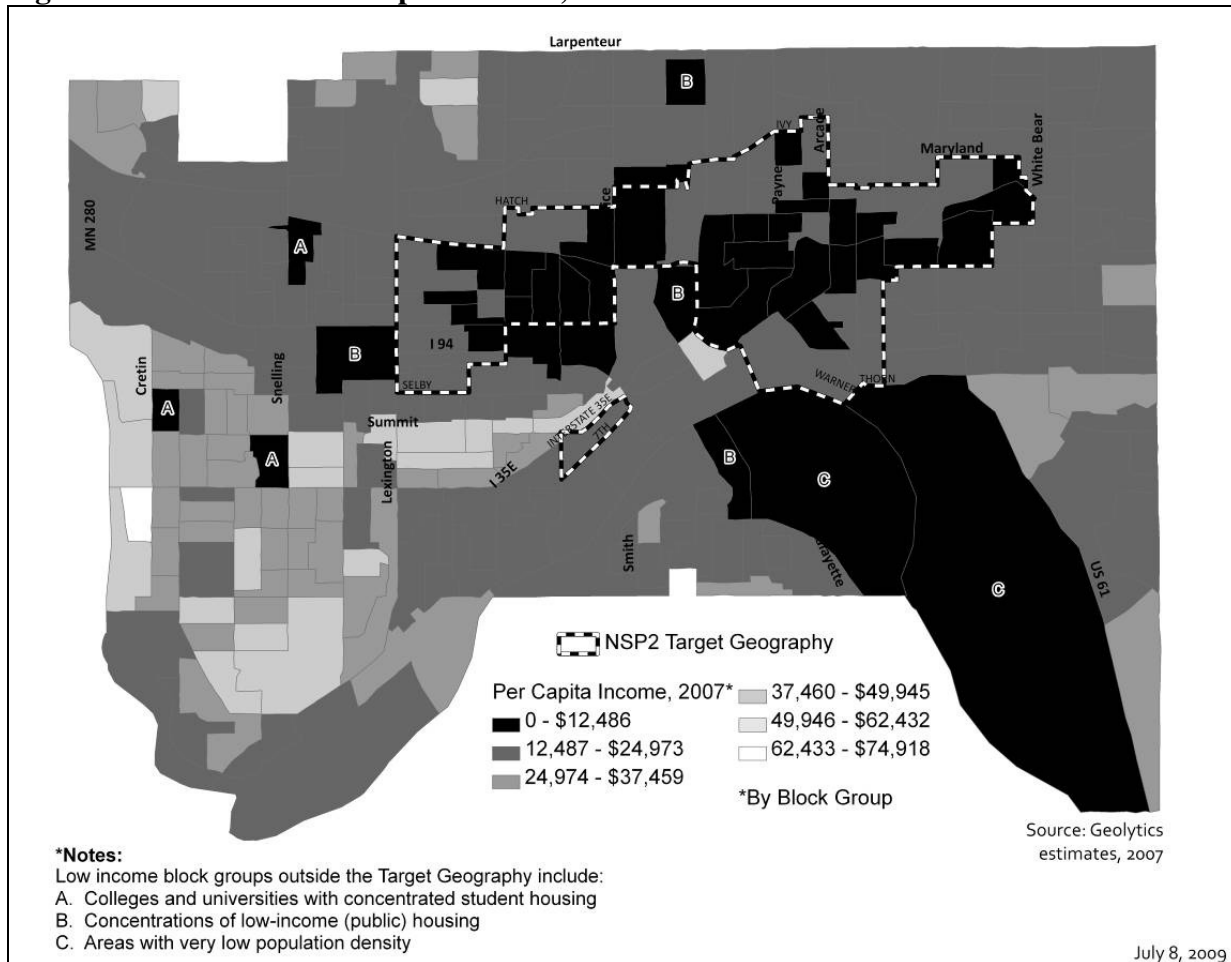
Figure 15: Estimated Per Capita Income, 2007

Figure 16, also based on Geolytics data, shows the approximate distribution and concentration of households in the NSP2 Target Geography versus the entire city. There was a slight concentration of households earning up to 50 percent and up to 80 percent of the Area Median Income (AMI) in the NSP2 Proposed Geography versus the entire city in 2007. (Data limitations prevented the number of households at 120 percent of the Area Median Income to be calculated.)

Figure 16: Number of Households at Various Income Levels, 2007

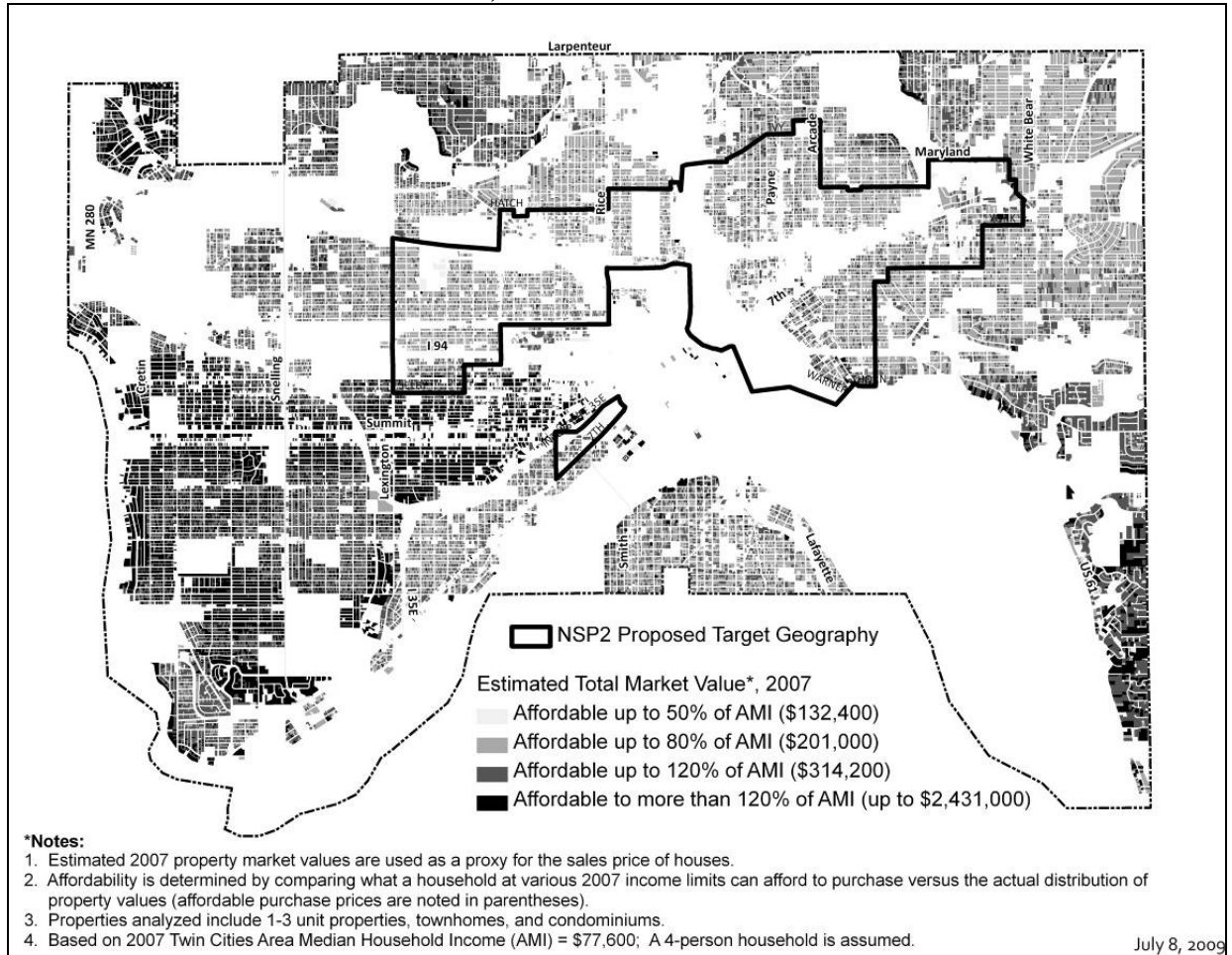
Households earning up to	Percent of AMI	Income	Households in:			
			NSP2 Area	% of total	Citywide	% of total
	30%	\$23,550	4,859	24%	22,364	20%
	50%	\$39,250	9,668	48%	45,081	41%
	80%	\$59,600	13,649	67%	66,730	61%
	100%	\$77,600	15,186	75%	77,658	71%
Total			20,233	100%	109,596	100%

Source: Geolytics data estimates, 2007

Figure 17 shows property affordability in 2007 for households earning up to 50 percent, 80 percent, 120 percent, and more than 120 percent of the AMI. The 2007 assessed value is used as a proxy for the sales price of each property. The map suggests there is a market for housing

affordable to households earning up to 50 percent, 80 percent, and 120 percent of the AMI, particularly in the NSP2 Target Geography. Though affordable, due to the concentration of foreclosed and vacant properties, many homes in the Target Geography suffer from problems related to deferred maintenance and the general age of the structure (the average age of 1-3 unit housing stock in Saint Paul is 87 years). One goal of the proposed NSP2 activities is to provide a high quality housing choice for households earning up to 50 percent, 80 percent, and 120 percent of the AMI.

Figure 17: Housing Affordable to 50 Percent, 80 Percent, 120 Percent and More than 120 Percent of the Area Median Income, 2007



Figures 18 and 19 show whether a household at a specific income level would be cost-burdened if it purchased the median-priced home in 2007. In these tables, a household is considered cost-burdened if the median-priced home purchased is greater than the affordable purchase price for the household's income limit.

Figure 18: If a Household Purchased the Median-priced* Home in the NSP-2 Target Geography, Would It Be Cost-burdened?

		Median price, NSP2 area		
		Condo \$86,300	Townhome \$142,200	Single family home \$165,300
Households earning up to	50% of AMI	No	Yes	Yes
	80% of AMI	No	No	No
	120% of AMI	No	No	No

*The assessed value is used as a proxy for sales price of the property.
Values in parentheses represent affordable purchase prices.

Figure 19: If a Household Purchased the Median-priced* Home in the City of Saint Paul, Would It Be Cost-Burdened?

		Median price, citywide		
		Condo \$188,900	Townhome \$185,250	Single family home \$200,000
Households earning up to	50% of AMI	Yes	Yes	Yes
	80% of AMI	No	No	No
	120% of AMI	No	No	No

*The assessed value is used as a proxy for sales price of the property.
Values in parentheses represent affordable purchase prices.

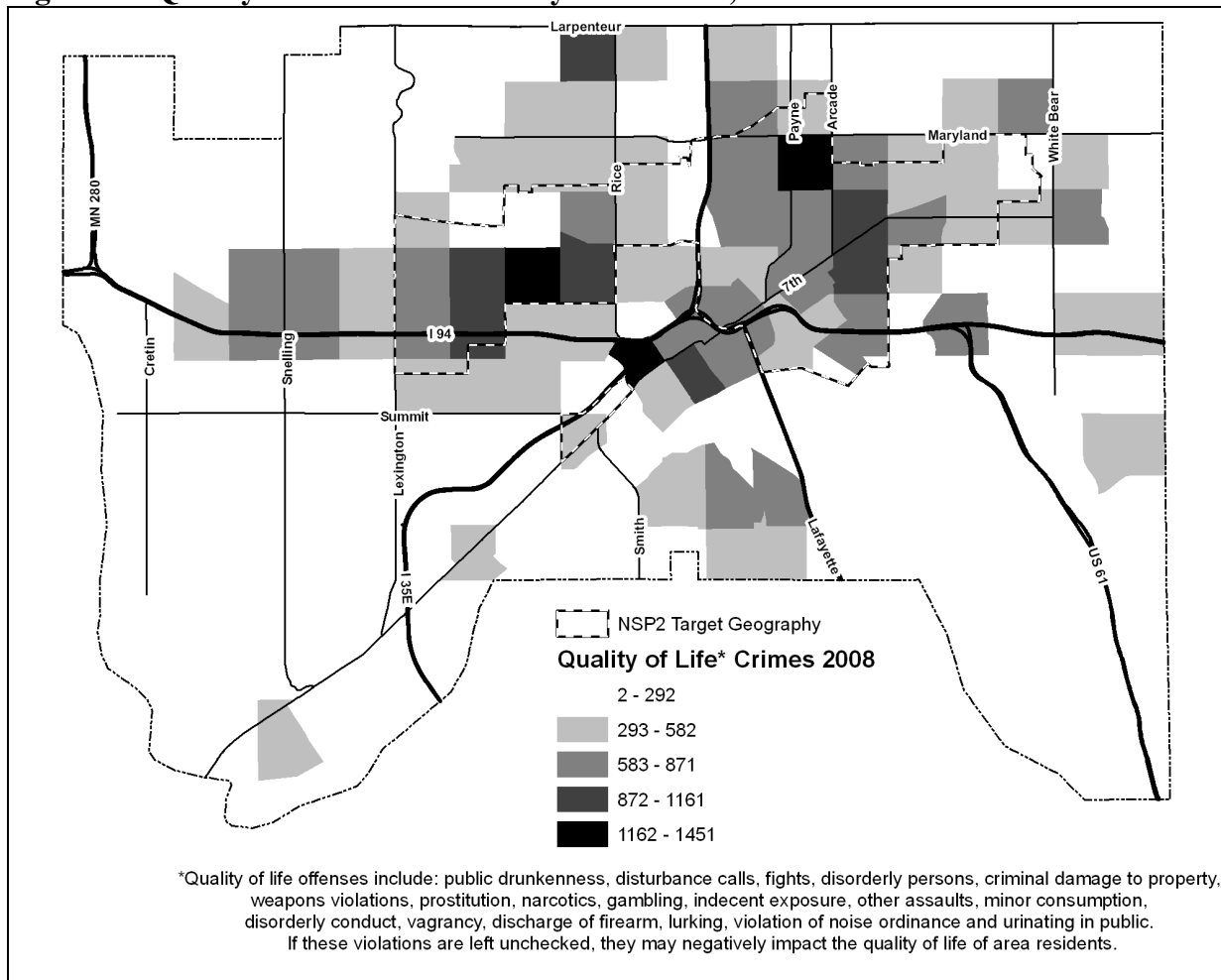
A household earning up to 50 percent of the AMI could be considered cost-burdened if it owned the median-priced single-family home or townhome property in 2007. This held for households in the NSP2 area, while anywhere else in the city, a household earning up to 50 percent of the AMI could be considered cost-burdened if it owned any of the three property types.

(4) Social, Governmental, Educational, or Economic Factors

- *There is a higher incidence of quality-of-life crimes within the NSP2 Target Geography compared to the city as a whole.*
- *The NSP2 Target Geography consistently experienced at least half of the city's total problem property complaints over the 2005-2008 period, even though it represents only 13 percent of the city's land area.*
- *Students eligible to receive free and reduced price lunches resided disproportionately in the NSP2 Target Geography between 2004-2008.*
- *Youth under age 18 are a higher proportion of the population in the NSP2 Target Geography compared to the city as a whole.*
- *The NSP2 Target Geography had a higher proportion of adults over age 25 that had not completed high school in 2000 compared to the city as whole.*

The level of crime in a neighborhood is often an indicator of neighborhood health and stability. Acts of crime that most notably contribute to neighborhood decline are so-called quality-of-life crimes. These crimes, also referred to as nuisance crimes, are “relatively minor, nonviolent illegal behaviors that collectively undermine people’s sense of well-being and public safety in an area.”⁵ Quality of life offenses include: public drunkenness, disturbance calls, fights, disorderly persons, criminal damage to property, weapons violations, prostitution, narcotics, gambling, indecent exposure, other assaults, minor consumption, disorderly conduct, vagrancy, discharge of a firearm, lurking, violation of noise ordinances and urinating in public. Left unchecked, these violations may negatively impact the quality of life of area residents. When quality of life declines in a neighborhood, disinvestment follows.⁶ Figure 20 indicates that quality-of-life crimes are, generally, more concentrated within the Target Geography. As overburdening of quality-of-life crimes leads to neighborhood disinvestment, it may also lead to an increased concentration of violent crime, as evidenced in Figure 21.

Figure 20: Quality-of-life Crime Rates by Police Grid, 2008



⁵ Cleary, Jim. “Community Courts and Quality-of-Life Crime: The Midtown Manhattan Community Court as a Model,” Minnesota House of Representatives Research Department, September 1999.

⁶ Skogan, Wesley G. Disorder and Decline: Crime and the Spiral of Decay in American Neighborhoods, New York: Free Press, 1992.

Figure 21: Violent Crime Rates by Police Grid, 2008

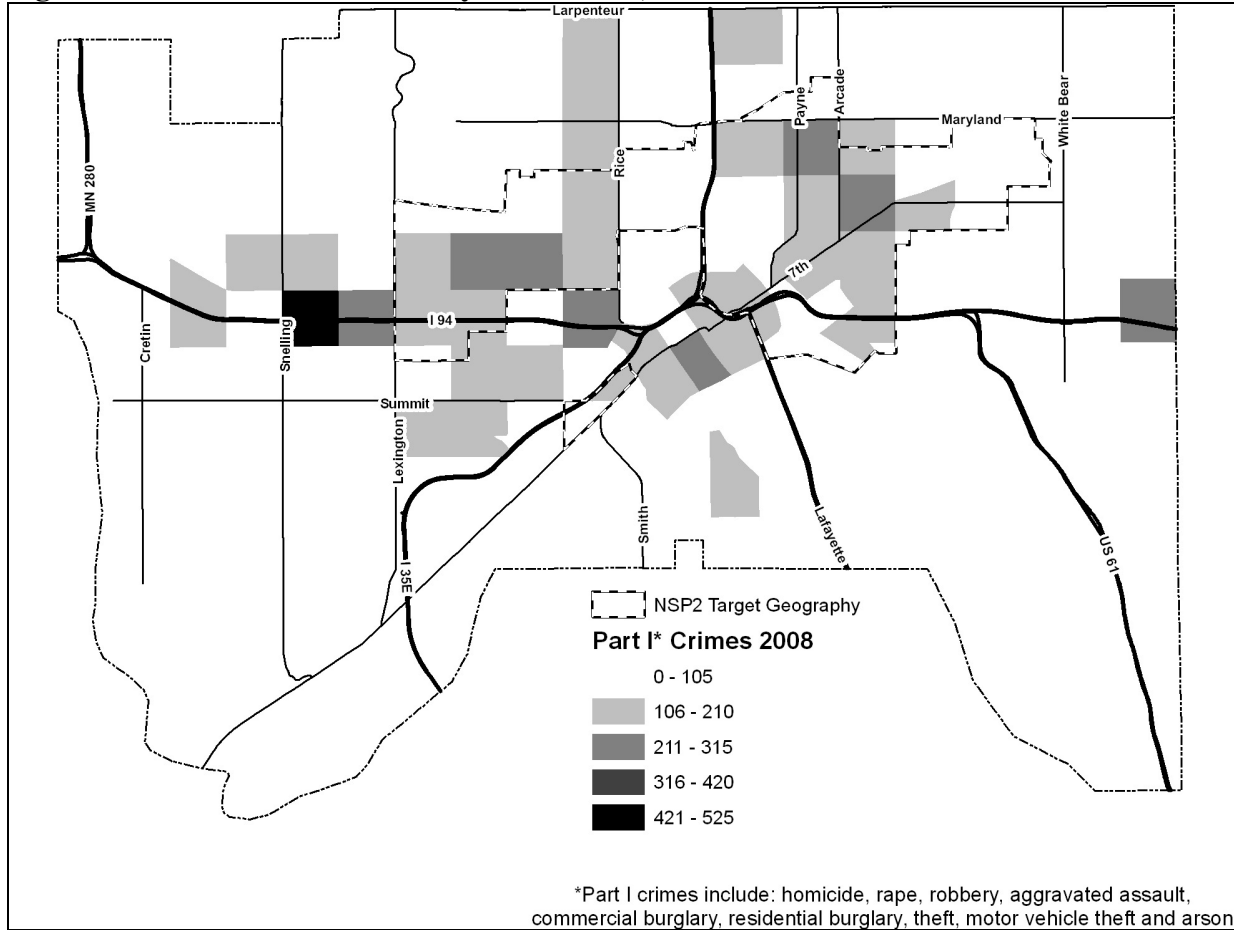


Figure 22 shows the number of problem properties, as reported by the city's Department of Safety and Inspections (DSI), in 2008. These residential and nonresidential properties are defined as receiving three or more complaints, based on citizen calls to DSI. As evidenced by the map, half of the city's problem properties were clustered in the NSP2 Target Geography in 2008. In addition, the Target Geography consistently experienced at least 50 percent of the city's total problem property complaints over the 2005 - 2008 period, even though the geography only represents 13 percent of the city's land area.

Figure 22: Problem Properties, 2008 (Those with 3 or More Complaints)

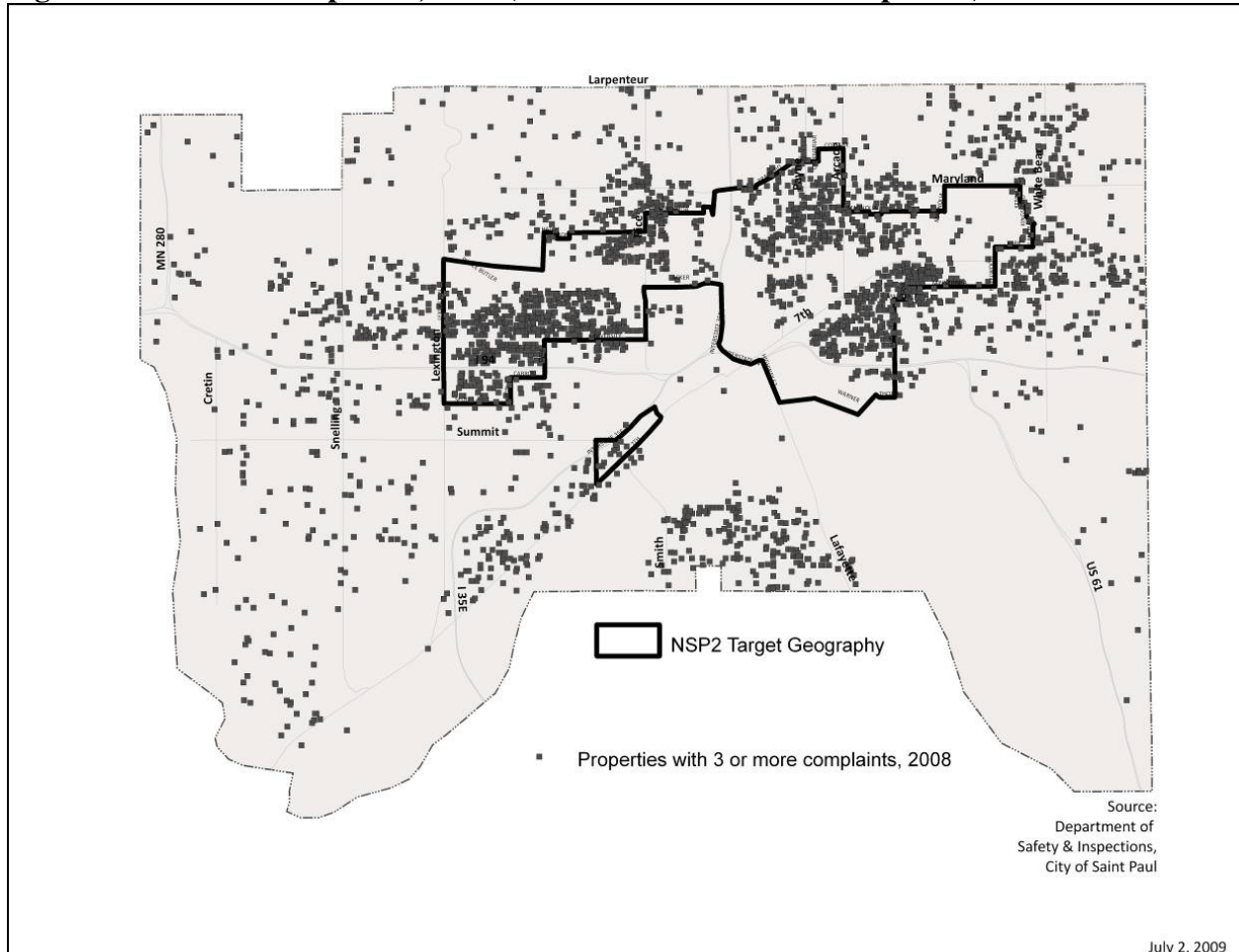


Figure 23 shows the percentage of Saint Paul public school students living in each census tract who were eligible to receive either free or reduced-price school lunches in 2008. The eligibility threshold for free and reduced-price lunch is defined every year at 185 percent of the poverty level, between 2004 - 2008. Students receiving these lunches were concentrated in the NSP2 Target Geography.

Figure 23: Percent of Students Eligible to Receive Free & Reduced Price School Lunches, 2008

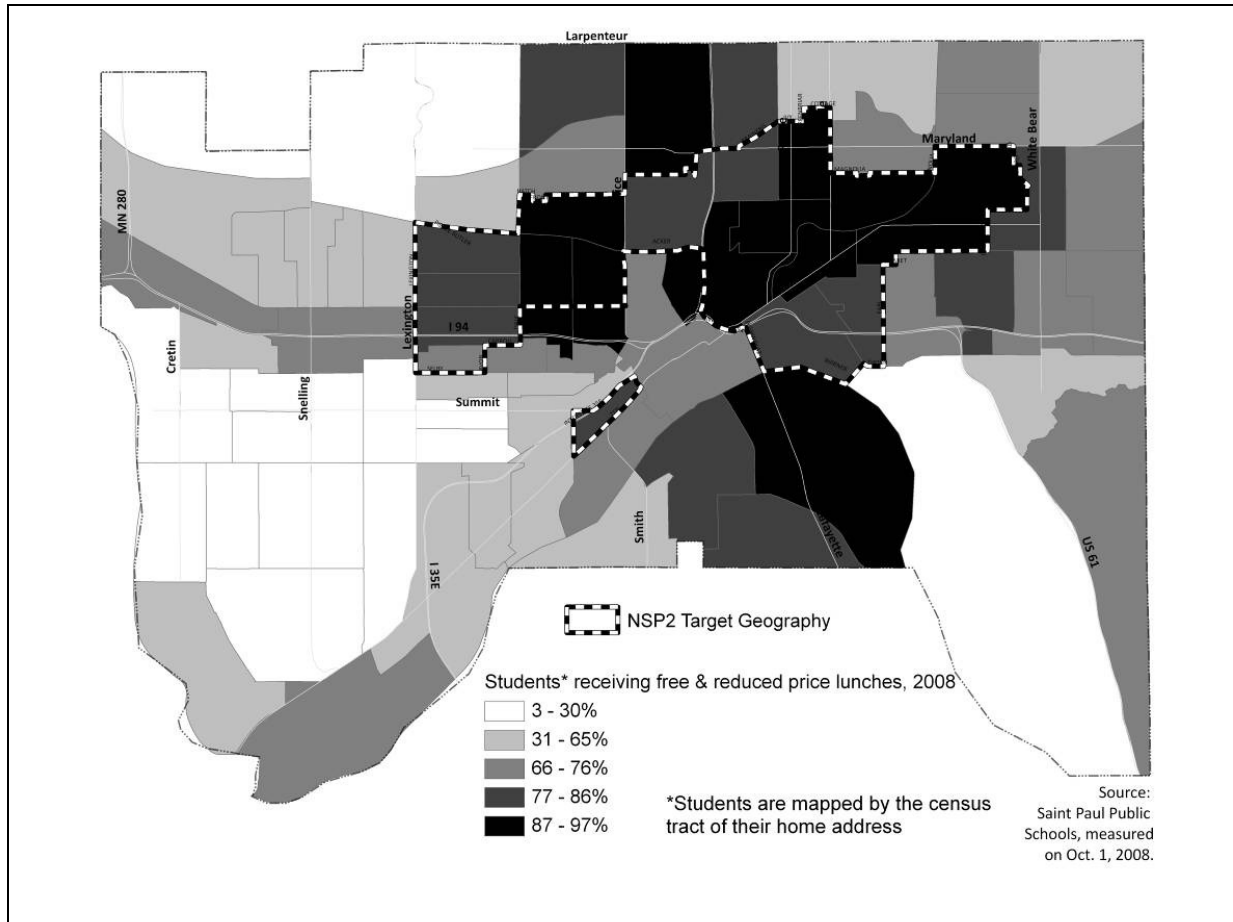


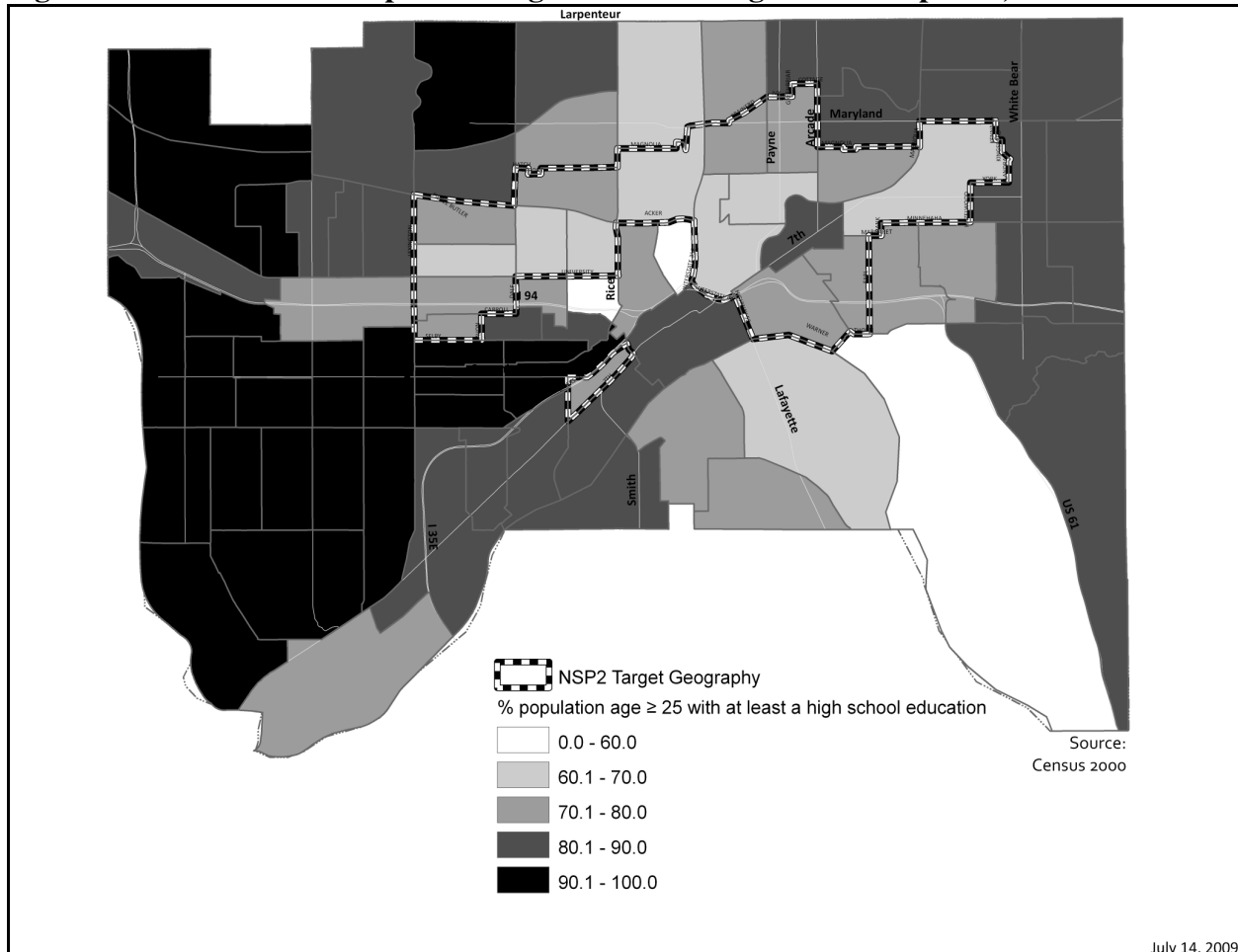
Figure 24 shows the estimated percentage of the population in each block group that was youth under the age of 18 in 2007. It shows that youth under age 18 are a higher proportion of the population in the NSP2 Target Geography compared to the city as a whole.

Figure 24: Estimated Percent of the Population under Age 18, 2007



Figure 25 shows the percent of the adult population over the age of 25 in each census tract that had at least graduated from high school in 2000. The NSP2 Target Geography had a higher proportion of adults over age 25 that had not completed high school in 2000 compared to the city as whole.

Figure 25: Percent of the Population Age 25+ with a High School Diploma, 2000



(5) NSP2 Activity Categories Most Likely to Stabilize the Target Geography

Based on the information in the above paragraphs, the following NSP2 activity categories are most likely to stabilize the target geography:

- **Acquisition and rehabilitation**

Many of the abandoned houses in the target geography can be rehabilitated for re-occupancy. Some houses should be re-converted back into their original single-family or duplex configurations. The data above suggests that there is still a market for moderately priced housing (for both rental and homeownership) in the Target Geography. But the current supply is of subpar quality. Acquisition and rehabilitation activity will be stabilizing because it will bring population back into these neighborhoods and the housing will be safe and economically viable, with increased energy efficiency and lower operating costs.

- **Acquisition, demolition and land banking for future redevelopment**

Additionally, many of the abandoned houses in the Target Geography are so deteriorated that they no longer have any viable marketability. These blighted properties continue to negatively affect the values and the marketability of neighboring properties. Thus, extensive and selective demolition will be an additional stabilizing activity. A strategic acquisition and demolition process including some assembly of contiguous properties will create opportunities for future development of a variety of different replacement housing types.

The data above, including Figure 7, suggests that the rate of market absorption will continue to be slow and prices will continue to be depressed, but NSP2 activities, particularly if concentrated, should begin to transform the market. Nevertheless, it does not appear that the market in the Target Geography is ready to accept much new housing at this time. Therefore, cleared lots and the production of new housing should be held off the market for three to ten years.

Acquisition for rehabilitation or demolition also achieves another stabilizing outcome by keeping properties from low-value investors. This strategic demolition process, if concentrated in the Target Geography, should help to break the cycle of low-value investor flips and the continuing risky financial transactions that follow this activity.

- **Providing financial incentives to buyers of NSP2 eligible properties and leverage other City mortgage products**

A financial incentive for homebuyers of NSP2-qualified properties should also be a stabilizing factor. All of these NSP2 activities will help to slowly stabilize these neighborhoods, but financial incentives are needed to help early buyers move back into these areas.

- **Code enforcement**

Saint Paul has had ongoing success with an intensive code enforcement strategy. This success is further supported by a city ordinance which requires property owners to address health and safety issues prior to the sale of severely deteriorated homes. These code enforcement activities will continue but are not a specific budgeted activity of this NSP2 funding request.

Rating Factor 2: Demonstrated Capacity of the Applicant and Relevant Organizational Staff

a. Past Experience

Saint Paul's NSP2 Target Geography submittal through the HUD website was accompanied by an electronic affirmation that the city "has successfully carried out and completed activities 1) relevant to each NSP2 activity it proposes to carry out and 2) involving at least 75 units of housing within the 24-month period immediately preceding May 4, 2009."

In 2007, Mayor Chris Coleman launched the Invest Saint Paul initiative, a comprehensive effort to focus on areas of disinvestment. As a result, the city has devoted a significant amount of resources to combating the effects of the housing crisis and has collaborated regionally and

statewide to address neighborhood challenges. Under this initiative and NSP1, the City has undertaken acquisition, rehabilitation, and demolition activities and has the infrastructure in place to further these efforts under NSP2.

Through the City's NSP1 program and Invest Saint Paul Initiative, the following activities were completed between December 1, 2007 and June 23, 2009:

- **Inspected and assessed 650 properties** for possible acquisition;
- **Requested prices on 20 properties through the National Community Stabilization Trust** bulk purchase mechanism;
- City's Housing and Redevelopment Authority (HRA) **purchased 126 properties**;
- City's Community Development Corporation partners **purchased 28 properties**;
- **Rehabilitated and either sold or rented 9 properties.**

Between January 1, 2009 and June 23, 2009:

- **33 vacant buildings have been demolished** by the HRA.

Between January 1, 2008 and December 31, 2008:

- City's Department of Safety and Inspections **demolished 160 blighted structures.**

Currently:

- **10 properties are undergoing rehabilitation.**
- **30 properties are in some stage of acquisition** process.
- **15 properties are the subject of donation negotiations** with Wells Fargo and Fannie Mae.

Additionally, The City of Saint Paul has been a CDBG Entitlement Community since 1975 and has received over \$325 million of funding over those years. From June 1, 2007 through May 31, 2009, the City **addressed 859 homes through its CDBG and HOME programs.** These activities have included acquisition/rehabilitation and resale; acquisition/demolition and new construction; acquisition, demolition and site assembly for larger developments; rehabilitation of existing housing stock; and new construction development on vacant sites.

The City also operates the City Living Mortgage Program which, between April 1, 2007 and September 30, 2008, **assisted in the sale of 52 vacant and foreclosed properties.**

In addition to the City Living Mortgage Program, the City has continued to successfully market other programs including the Make it Possible Program, a second mortgage product to assist in buying down mortgages; the Sustainable Home Ownership Program, a contract for deed program; and the Saint Paul Heroes Program, which provides downpayment assistance to first-time homebuyers employed in the public sector (**36 closings** totaling over \$500,000 to date); and the Take Credit! Mortgage Certificate Program, which provides a tax credit for the life of the loan.

Rating Factor 2: Demonstrated Capacity of the Applicant and Relevant Organizational Staff

b. Management Structure

(1) Description of Management Structure

The City of Saint Paul has an effective management structure in place to handle the proposed NSP2 activities. This staff is already engaged in similar activities through its NSP1 and Invest Saint Paul Initiative programs.

The Housing and Redevelopment Authority of the City of Saint Paul conducts redevelopment activities on behalf of the City of Saint Paul. Cecile Bedor is the Executive Director of the HRA and the Director of the Department of Planning and Economic Development (PED). Under Ms. Bedor's direction, PED staff manages these activities.

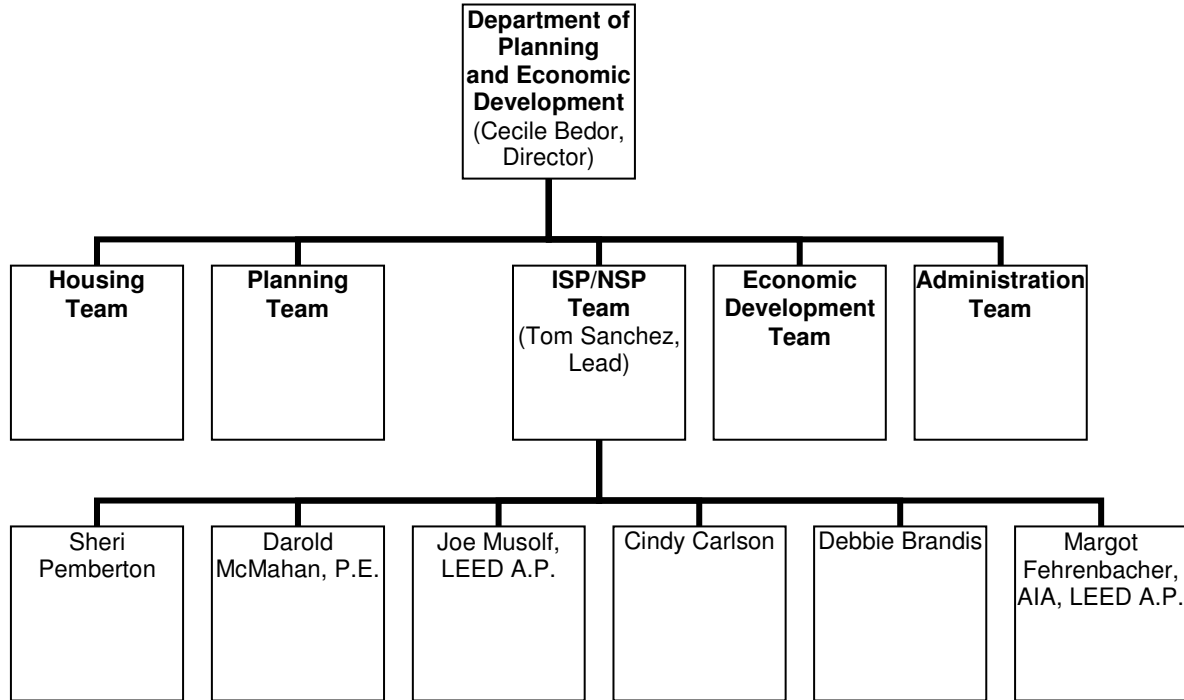
Figure 26 is an organizational chart of the Department of PED. It is important to note that one division of the department is devoted exclusively to managing NSP1, NSP2 and Invest Saint Paul Initiative activities. These key staff members have specific experience and expertise in single- and multi-family residential development work, including real estate transactions (both acquisition and disposition), and oversight of appraisal, demolition, new construction and rehabilitation activities.

The following persons will be responsible for the day-to-day management of the City's proposed NSP2 activities:

- Tom Sanchez, Team Leader – management of NSP2 program
- Sheri Pemberton, Senior Project Manager – acquisition, demolition and land-bank activities
 - Mr. Sanchez and Ms. Pemberton have experience with the development of over 5,000 housing units in the City of Saint Paul
- Joe Musolf, Senior Project Manager – rehabilitation and disposition activities
 - Mr. Musolf is a LEED Accredited Professional
- In addition, PED has a project engineer on staff to help oversee demolition activity, lending specialists to oversee the financial incentive program, and rehabilitation advisors to assist in the oversight of rehabilitation activities.
- The team also has a registered architect on staff to assist with oversight of rehabilitation activities.

Longer-term land-bank activities will be managed by the City and its HRA. A partnership with the Twin Cities Community Land Bank may provide opportunities to leverage additional resources. The HRA has successfully contracted with the Department of Parks and Recreation for maintenance of land-banked properties in the past. Key NSP2 staff will evaluate options for this continued activity.

Figure 26: Organization Chart



(2) References

The City of Saint Paul has a long successful history of successful work similar to the activities in this proposed NSP2 plan. Persons who can confirm the City's capability and ongoing success include:

Donovan Walsh
National Community Stabilization Trust
1325 G St., N.W., Suite 800
Washington, D.C. 20005-3100
202-220-2300
dwalsh@stabilizationtrust.com

Susan Haigh
President
Twin Cities Habitat for Humanity
3001 4th Street SE
Minneapolis, MN 55414
612-331-4090
susan.haigh@tchabitat.org

Jim Erchul
Executive Director
Dayton's Bluff Neighborhood Housing Services
823 7th Street E.
Saint Paul, MN 55106
651-774-2704
jerchul@dbnhs.org

Kathy Lantry
President
Saint Paul City Council
320-C City Hall
15 Kellogg Blvd., West
Saint Paul, MN 55102
651-266-8670
kathy.lantry@ci.stpaul.mn.us

Additionally, similar work is referenced in the following article from the Saint Paul Pioneer Press, published on June 17, 2009:

Lots of prosperity in Dayton's Bluff

For 18 years, Jim Wardlaw has lived on a tree-lined block in St. Paul's Dayton's Bluff neighborhood, enjoying his Dutch Colonial house while enduring crack house traffic, disturbances next door and even the flushing out of a murderer from a nearby home.

"My vision when I moved here was to have a beautiful neighborhood," he said. "It's been a slow process."

Now, the city is aiming to aid the turnaround in a novel way by quietly buying E. 4th Street area houses to sell at bargain rates to people who will fix them up and ensure they're homeowner-occupied. The goal, officials say, is to reduce the high percentage of rental property in the historic neighborhood, and to create ripple effects of investment and renewal nearby.

Last week, the City Council, acting as the Housing and Redevelopment Authority, gave the go-ahead to a request-for-proposals process making 11 properties available for sale. But as neighbors and would-be buyers await the open-house events, the city's purchases -- some of them made two years ago -- have provided a side benefit.

They have taken problem properties -- with their recurring police calls -- out of circulation.

"It has been very quiet," Wardlaw said of the block-long stretch of E. 4th Street between Maria and Bates avenues.

There, five of the 19 residences facing E. 4th Street now are in city hands, with a sixth, fronting Maria Avenue at E. 4th Street, also under the city's control.

At 695 E. 4th St., the house next door to Wardlaw's, police responded to 51 calls for service during a two-month period in the summer of 2006 -- before the city took ownership. One report concerned an aggravated assault but most involved disorderly conduct, police records show.

The 2006 troubles, Wardlaw said, stemmed from a single mother leaving her seven children home alone for days at a time. There was drug use, he said, and violence and thievery. The woman's teenage boys, Wardlaw recalled, broke into a nearby church one winter, and tossed the minister's wallet into Wardlaw's yard.

Across the street, at 700 E. 4th St., officers responded to 18 police calls -- most again involving disorderly conduct -- between May and August 2007.

A man bought the home with good intentions, Wardlaw said, but he rented to the wrong tenants. "To see his dream go up in smoke was pretty sad," Wardlaw added.

The city bought the house for \$22,900, and now plans to sell it for \$10,000, according to last week's HRA vote.

Long-range effort

As part of its Fourth Street Preservation Project, the HRA is prepared to take up-front losses on each of eight parcels it is offering for sale in the E. 4th Street area.

The biggest price differences are at 326 Maria Av., purchased by the city for \$65,000 and being sold for \$26,000, and at 693 E. 4th St. and 689 E. 4th St., which were bought for \$75,000 and \$65,000, and will be sold for \$20,000 and \$1, respectively. The \$1 house, damaged by fire, sits beside 693 E. 4th St., and as part of a 693 E. 4th St. purchase, could be demolished and converted to green space, a city official said.

According to last week's HRA staff report, the public will benefit because vacant properties are being rehabilitated and because homeownership and the city's tax base will be increased. While a house may cost only \$20,000, for example, the renovations that are likely to be required could drive the total cost for each vacant property up to \$170,000.

City Council President Kathy Lantry, who represents the area, said to her colleagues last week: "Is this the greatest thing ever?"

Citywide, the HRA now owns more than 70 residential or commercial properties, the HRA report said.

Wardlaw said his only complaint about the 4th Street project is that it still could be a few years before the turnaround, from sale to renovation to home ownership, is complete.

But he and city officials believe the foundation is in place to draw new neighbors, new families, people with a stake in furthering the message now contained on a sign at the end of the block.

"Be peaceful," it reads.

Star Tribune • June 17, 2009 • Anthony Lonetree • 612-673-4109

Rating Factor 3: Soundness of Approach

a. Proposed Activities

Within the Saint Paul Target Geography, the city proposes to use NSP2 funds to rapidly arrest the decline, then stabilize these neighborhoods and position them for a sustainable role in a revitalized community. Measurable short term program outcomes will include, but not be limited to: arresting decline in home values based on average sales price in targeted neighborhoods; reducing or eliminating vacant and abandoned residential property in targeted neighborhoods; and controlling the future outcomes of key properties. The long term outcomes may include, but are not limited to: increased sales of residential property in targeted neighborhoods; and increased median market values of real estate in targeted neighborhoods.

This is an ambitious but achievable work plan, which will result in real, measurable, positive outcomes.

Saint Paul's proposed NSP2 activities complement and build upon ongoing, successful neighborhood stabilization activities currently underway: the Invest Saint Paul Initiative and NSP1. These are significant, comprehensive endeavors for which efficient staff and process

infrastructure are already in place. The city has the capacity to carry out a much larger volume of stabilization activities.

The city will undertake the following activities in the following approximate quantities over three years:

- Financial incentives for buyers: for 300 buyers
- Acquisition and rehabilitation: 300 homes
- (B, D) Acquisition and demolition of blighted structures: 100 homes
- Land-bank vacant lots for future re-use: 100 parcels
- In addition, the City will use NSP2 program income for (E) Redevelopment activities in future years.

It is anticipated that program income will be generated via sales of rehabilitated homes and developable lots in future years. Therefore, a portion of NSP2 funds will be available for reuse in future years. The above quantities of activity are for the first three years of the proposed program. Considering opportunities for the recycling of NSP2 funds, it is anticipated that the entire program will affect as many as 700 properties over 7 to 10 years.

A summary of each activity and funding need follows:

(A) Financial Incentives. 300 buyers @ \$15,000 average = \$4,500,000

The city will establish a financial incentive program for purchasers of foreclosed upon homes and residential properties. This program will be available for buyers of either rehabilitated NSP2 funded properties or other additional eligible foreclosed or abandoned properties.

(B) Acquisition and Rehabilitation. 300 homes @ \$57,000 average acquisition + \$100,000 average rehabilitation = \$47,100,000

The city will acquire and rehabilitate approximately 300 abandoned or foreclosed upon homes during the first three years of NSP2. The city will acquire properties either via bulk purchase (through continued participation in the National Community Stabilization Trust's "First Look" process) or via other direct negotiations with property-owners. Rehabilitation activity will be carried out primarily by Community Development Corporations and other non- and for-profit development partners in the community. The city will minimize the risk and capital requirements of our development partners in order to expedite this activity. Rehabilitation activities will comply with all NSP and city requirements including the Interim Saint Paul PED/HRA Sustainability Initiative.

(B, D) Acquisition and Demolition . 100 homes @ \$27,500 average acquisition + \$15,000 average demolition = \$4,250,000

The city will acquire approximately 100 blighted homes and will remove these destabilizing influences via demolition. Acquisition will be either via bulk purchase (through continued participation in the National Community Stabilization Trust's "First Look" process) or via other direct negotiations with property-owners.

(C) Land-Banking Activities . \$600,000 for land-bank operations and for holding costs

The 100 vacant parcels that are cleared by NSP2 demolition activity will be held in land-bank status for future reuse. NSP2 funds will be used to fund the establishment of the land-bank entity and will be used to cover the ongoing carrying costs and maintenance of land-banked property. Land-bank activities will be managed by the city through its Housing and Redevelopment

Authority. A partnership with the Twin Cities Community Land Bank may provide opportunities to leverage additional resources.

(E) Redevelopment to be funded with program income in future years

NSP2 program income will be generated by the future sales of rehabilitated houses and cleared lots available for redevelopment. These proceeds will fund redevelopment of vacant lots. Lots cleared by NSP2 demolition activity will eventually be used as sites for new replacement housing.

In addition to the activities summarized above, the city will also use NSP2 funds for administrative costs.

These activities and budget numbers are outlined in the summary budget shown as Figure 27:

Figure 27: NSP2 Summary Budget

Activity	Budget
A Financing mechanisms	\$ 4,500,000
B1 Acquire and rehabilitate 120% AMI	\$ 32,987,500
B2 Acquire and rehabilitate 50% AMI	\$ 14,112,500
B3 Acquire for demolition and redevelopment	\$ 2,750,000
C Land bank	\$ 600,000
D Demolition	\$ 1,500,000
E Redevelopment	*
Administration	\$ 6,272,000
Total	\$ 62,722,000

* Redevelopment activity will be funded with program income

All of the proposed NSP2 activities are allowed uses per the NSP regulations and all have a correlated CDBG regulation. This is shown in Figure 28.

Figure 28: CDBG Eligibility Summary

Proposed Activity	NSP-Eligible Uses	Correlated Eligible Activities from the CDBG Entitlement Regulations
Financial incentives for homebuyers	(A) Establish financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties	24 CFR 570.201 (n) Direct homeownership assistance
Acquisition	(B) Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon	24 CFR 570.201 (a) Acquisition
Rehabilitation	(B) Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon	24 CFR 570.201 (b) Disposition and 24 CFR 570.202 Rehabilitation and preservation activities
Land banking	(C) Establish land banks for homes and residential properties that have been foreclosed upon	24 CFR 570.201 (a) Acquisition and 24 CFR 570.201 (b) Disposition
Demolition	(D) Demolish blighted structures	24 CFR 570.201 (d) Clearance for blighted structures only
Redevelopment	(E) Redevelop demolished or vacant properties as housing	24 CFR 570.201 (b) Disposition and 24 CFR 570.202 Rehabilitation and preservation activities

Within the larger Saint Paul NSP2 Target Geography, activity will be concentrated within approximately ten small opportunity areas. Within each area, NSP2 will fund approximately 30 acquisition/rehabilitations and 10 acquisition/demolitions. These areas of concentrated activity will be defined as two- or three- or four-square block sizes. This concentrated activity will be market-changing in these areas and the specific properties addressed in each area will more easily reinforce and build upon each other and will provide for a more concise, focused marketing approach.

These areas will be defined through a comprehensive analysis which will considering at least (1) results of ISP-funded community outreach research; (2) concentrated acquisition opportunities; (3) existing neighborhood amenities; (4) patterns of recent reinvestment; and, (5) concentration of foreclosures and vacant buildings.

Rating Factor 3: Soundness of Approach**b. Project Completion Schedule**

Anticipated pace of acquisition:

- The City of Saint Paul will acquire approximately 200 homes in Year 1 of the NSP2 program, 110 homes in Year 2, and 90 homes in Year 3.

Anticipated pace of rehabilitation:

- Rehabilitation and demolition activity will follow the pace of acquisition activity with a 3-month lag.

The anticipated utilization of the homebuyer financial incentive program will be approximately 70 in Year 1, 70 in Year 2 and 160 in Year 3.

These schedule projections are summarized in Figure 29. Cost of each activity has also been multiplied out to match the projected quantities of activity. This is also shown in Figure 29. The figure shows that the City will spend far in excess of the required 50 percent of total funds by the conclusion of Year 2.

Figure 29: Project Completion Schedule

	YEAR 1				YEAR 2			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Acquisition Quantity	56	48	48	48	29	27	27	27
Acquisition Cost (\$49,625/home)	\$2,779,000	\$2,382,000	\$2,382,000	\$2,382,000	\$1,439,125	\$1,339,875	\$1,339,875	\$1,339,875
Rehabilitation Quantity	42	36	36	36	22	21	20	20
Rehabilitation Cost (\$100,000/home)		\$4,200,000	\$3,600,000	\$3,600,000	\$3,600,000	\$2,200,000	\$2,100,000	\$2,000,000
Demolition Quantity	14	12	12	12	7	6	7	7
Demolition Cost (\$15,000/home)		\$210,000	\$180,000	\$180,000	\$180,000	\$105,000	\$90,000	\$105,000
Financial Incentive Quantity	17	17	17	17	16	17	16	17
Financial Incentive Cost (\$15,000/home)	\$255,000	\$255,000	\$255,000	\$255,000	\$240,000	\$255,000	\$240,000	\$255,000
Land Bank Cost	\$200,000				\$200,000			
Administration Cost	\$269,500	\$658,500	\$595,500	\$595,500	\$538,000	\$364,000	\$351,000	\$344,000
Quarter Totals	\$3,503,500	\$7,705,500	\$7,012,500	\$7,012,500	\$6,197,125	\$4,263,875	\$4,120,875	\$4,043,875

24 month cumulative spent	\$43,859,750
50% Spending Requirement is \$31 Million	

Figure 29: Project Completion Schedule (cont'd)

	YEAR 3			
	Q1	Q2	Q3	Q4
Acquisition Quantity	27	27	27	9
Acquisition Cost (\$40,000/home)	\$1,339,875	\$1,339,875	\$1,339,875	\$446,625
Rehabilitation Quantity	20	20	20	7
Rehabilitation Cost (\$100,000/home)	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
Demolition Quantity	7	7	7	2
Demolition Cost (\$15,000/home)	\$105,000	\$105,000	\$105,000	\$105,000
Financial Incentive Quantity	41	42	41	42
Financial Incentive Cost (\$15,000/home)	\$615,000	\$630,000	\$615,000	\$630,000
Land Bank Cost	\$200,000			
Administration Cost	\$400,000	\$381,500	\$380,000	\$309,500
Quarter Totals	\$4,659,875	\$4,456,375	\$4,439,875	\$3,491,125

Rating Factor 3: Soundness of Approach**c. Income Targeting for 120 Percent and 50 Percent of Median**

At least 25 percent of the city's NSP2 grant funds will be expended for housing for individuals whose incomes do not exceed 50 percent of area median income. All of the city's NSP2 funds will be expended for housing for individuals whose incomes do not exceed 120 percent of area median income.

During the first three years of NSP2 activity, approximately 105 homes will be acquired and rehabilitated to be available to households at the 50 percent AMI level (see Figure 29). These homes will be subject to the affordability requirements cited below. Some of these homes may become part of a housing trust or land trust. A portion will be made available through a lease-with-option-to-buy. Some will be made available as rental property in an arrangement where the city will maintain title during the period of affordability and management will be by qualified and experienced partners.

The remainder of the city's proposed acquisition and rehabilitation activities, as well as the financial incentive activity described above, will be targeted to individuals whose incomes do not exceed the 120 percent AMI level. These activities will produce homes primarily for homeownership.

In addition, land-banked vacant lots will be redeveloped with new housing in future years. This activity will also follow the 25 percent at 50 percent AMI rule. The city anticipates that partners such as Twin Cities Habitat for Humanity and local developer Model Cities Aurora Saint Anthony will continue to collaborate with the city to achieve this requirement.

Rating Factor 3: Soundness of Approach

d. Continued Affordability

For all of its NSP2 funded activities, the City of Saint Paul will adopt and enforce the rental affordability requirements at 24 CFR 92.252(a), (c), (e), and (f). The city's definition of "affordable rents" (Appendix B) is consistent with these requirements. The City will adopt and enforce the homeownership affordability requirements at 24 CFR 92.254.

Affordability requirements for rental properties will be ensured by a Declaration of Rental Restriction and/or via the use of a land trust.

Affordability requirements for homeownership will be ensured by a Declaration of Covenants, Conditions and Restrictions. Sale of such property prior to expiration of affordability must be to an income-eligible buyer.

Rating Factor 3: Soundness of Approach

e. Consultation, Outreach, Communications

(1) Consultation with Units of Local Government

Presently, the City of Saint Paul is the only unit of local government expending NSP1 funds within the proposed Target Geography. Some of those funds were received through the Minnesota Housing Finance Agency (MHFA). Ramsey County also received some NSP1 funds through MHFA. We have consulted with MHFA and Ramsey County to assure continued non-duplicity of NSP efforts. Ramsey County is not engaged in NSP activities within the City of Saint Paul.

In addition, the city is cooperating with a coordinated multi-jurisdictional land banking effort, which includes participation by Ramsey County and neighboring cities and counties. Saint Paul has representatives on the Board of Governors of the land bank entity as does Ramsey County, and a Saint Paul-based nonprofit community development corporation.

It is also important to note that the city's NSP2 activities are consistent with the city's comprehensive plan, which has been approved by the Twin Cities' regional planning agency, the Metropolitan Council.

(2) Proposed Outreach and Affirmative Marketing

The City of Saint Paul, its HRA and PED staff have been consistently successful in marketing City/HRA programs in a number of innovative ways. The city will ensure that there are qualified families available as NSP2-assisted units become available by working with our partners and through direct marketing. Examples include:

- Conducting outreach through neighborhood District Planning Councils.
- Collaborating with development partners that maintain lists of interested potential clients and are constantly engaged in effective outreach activities.
- Presenting information at culturally-specific events such as the Hmong Resource Fair, the Latino celebration or the Minnesota Black Chamber of Commerce Expo.
- Participating in the Minneapolis Saint Paul Home Tour.
- Partnering with the Saint Paul Area Association of Realtors in marketing efforts.
- Working with local lenders.

- Promoting opportunities through the Live MSP website (www.livemsp.com).
- Creating print advertisements, multiple listing service, and advertisements on City vehicles.

(3) Continual Communication

The city will continually communicate program design, progress, opportunities and results. The city will ensure that local residents and other interested parties are informed about program policies primarily via the city website (www.stpaul.gov/nsp). This is consistent with reporting of NSP1 program progress. The city will also report on NSP2 activity via the internet in a manner consistent with the requirements of the Recovery Act.

Complaints will be processed in a timely manner (responses within 15 days).

Rating Factor 3: Soundness of Approach

f. Performance and Monitoring

The City of Saint Paul, as a CDBG grantee, has a plan for monitoring all program activities and ensuring performance. In addition, the city will have an internal audit function specifically designed for NSP2 activities.

(1) Monitoring Plan

The city routinely completes financial reviews and performance evaluations of city and subgrantee activities to help ensure that activities carried out with HUD funding are in compliance with program regulations, and also meet their intended goals, including timely expenditure of funds. (If funds are not being expended in a timely manner for a particular activity, funding may be reallocated to other activities or changes made to activity guidelines). Listed below are the major components of the city's ongoing monitoring system that will continue in the years of the NSP2 activities and will be applicable to the NSP2 activities.

- Review of Proposals - All activities proposed to receive HUD funding are reviewed by grants management staff to determine if the activity is eligible, and if a national objective will be met.
- Contracts - All non-city entities (subgrantees, CHDOs, etc.) receiving HUD funding (CDBG, HOME, ESG, NSP, NSP2) from the City are required to enter into a formal agreement with the City. The agreement identifies all applicable federal, state, and local regulations and compliance requirements that apply to the activity, and also identifies specific activities to be carried out, a timeline for carrying out the activities, and a detailed budget.
- Reimbursement/Check Requests - Each time a reimbursement is requested for a city or subgrantee activity, documentation of the expenses as well as a report which updates the progress and accomplishments of the activity must be included. The reimbursement requests are reviewed for accuracy by a city project manager and accounting staff before the reimbursements are processed.
- On-Site Monitoring - Each year the city makes site visits to some of the subgrantees carrying out federally-funded projects and programs. Selection of subgrantees is based on several risk factors, including the amount of funding allocated, the complexity of the project or program being carried out, and the experience and capacity of the group receiving the funding. The on-site monitoring examines the subgrantees financial systems

and controls, cost reasonableness of activities, program eligibility and national objective, project progress, and other applicable requirements. HOME assisted properties with long-term compliance requirements are also monitored and inspected as required by HOME regulations.

(2) Internal Audit

In addition to the monitoring plan, the city will also carry out internal auditing of the NSP2 activities. This internal audit function will continually examine potentially risky areas of program operations and management and provide regular and valuable feedback to program managers and to those who hold them accountable. This feedback will include identification of risky management practices and missing or ineffectual internal controls, areas that are not in compliance with program requirements, and ineffective implementation of established policies. The internal audit function will be carried out by Tom Sanchez, Team Leader in the Department of Planning and Economic Development (see Figure 26). Mr. Sanchez will be assisted regularly by PED accounting staff, PED federal program administrative staff, and the City Finance Department. Mr. Sanchez has also met with representatives from the HUD Inspector General's office regarding fraud monitoring.

Monthly and quarterly performance will be monitored in a manner consistent with NSP2 requirements. In addition, the city will report on NSP2 activities in a manner consistent with the Federal Funding Accountability and Transparency Act of 2006 and the Recovery Act.

Rating Factor 4: Leveraging Other Funds, or Removal of Substantial Negative Effects

a. Leverage

The City of Saint Paul has secured \$33,950,000 of non-NSP, non-CDBG, and non-federal resources for investment in this proposed NSP2 program. The dollar amounts and sources are as follows:

\$7,950,000	Family Housing Fund
\$9,500,000	Twin Cities Community Land Bank
\$7,000,000	City of Saint Paul Reserve Fund
\$7,500,000	Housing and Redevelopment Authority of the City of Saint Paul
\$2,000,000	Dayton's Bluff NHS

Written agreements for these commitments are included as Appendix C.

This leverage may be expressed as the ratio of the value of the firmly committed leveraged resources divided by the amount of NSP2 funds requested:

$$\$33,950,000 / \$62,722,000 = 0.54$$

Rating Factor 4: Leveraging Other Funds, or Removal of Substantial Negative Effects

b. Value of Destabilizing Influences Proposed to Be Removed

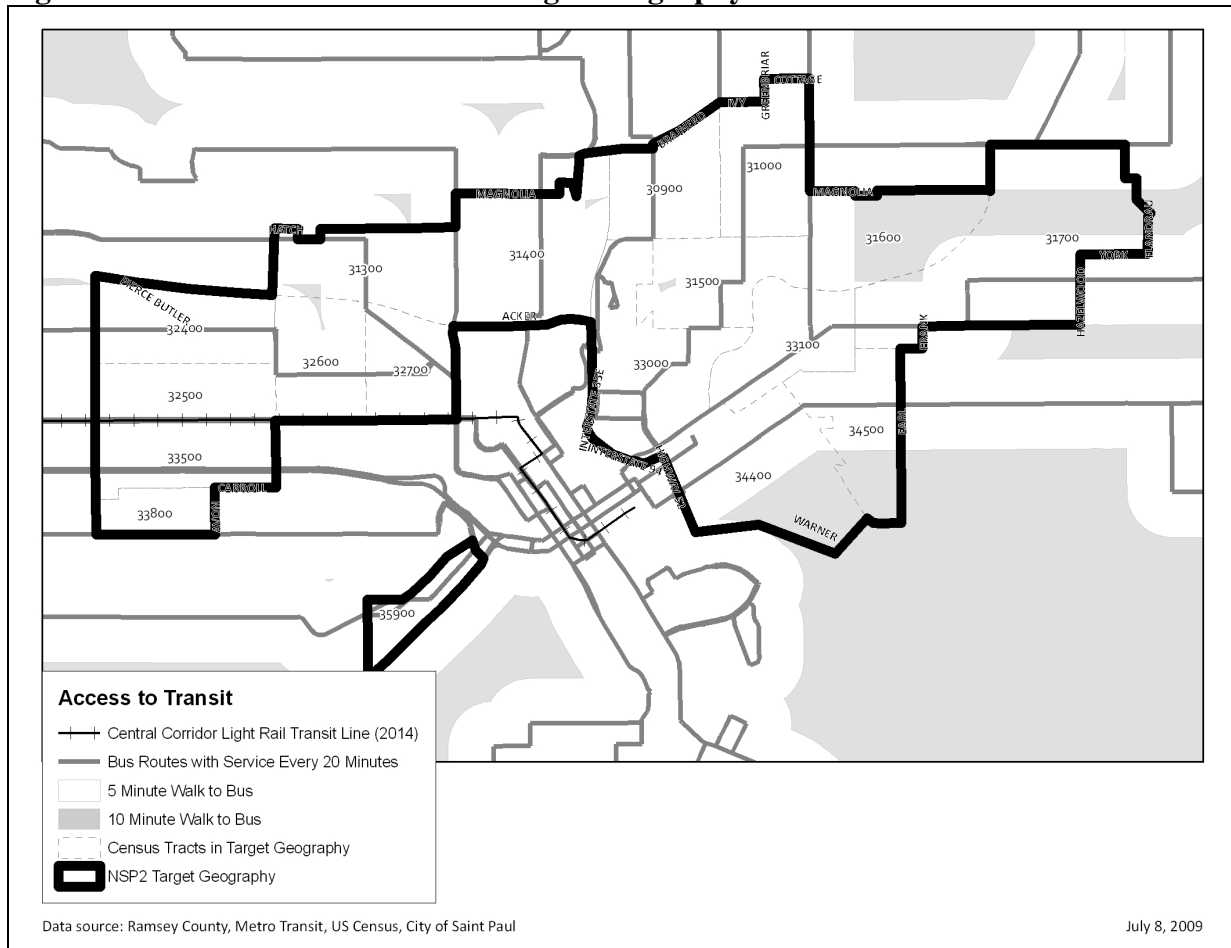
The city will acquire and rehabilitate 300 homes and acquire and demolish 100 blighted homes as part of its proposed NSP2 program. According to the HUD-provided rubric, the value of these activities can be expressed as 0.52. Documentation of the rubric calculation is included as Appendix D.

Rating Factor 5: Energy Efficiency Improvement and Sustainable Development Factors

a. Transit Accessibility

All census tracts contained in the Saint Paul NSP2 Target Geography are well-served by bus service. Figure 30 shows that all parts of the Target Geography are within a 5- or 10- minute walk to a bus stop. Bus service connects from all census tracts with both downtown Saint Paul and other regional employment centers. In addition to bus service, the western portion of the Target Geography will be served by light rail transit, scheduled to begin operation in 2014.

Figure 30: Transit Service in NSP2 Target Geography



Rating Factor 5: Energy Efficiency Improvement and Sustainable Development Factors

b. Green Building Standards

Appendix E describes the City of Saint Paul's housing rehabilitation standards as applicable to work funded by NSP2 funds. These standards comply with the NSP2 requirements. Also, the Saint Paul NSP2 regulations require new construction and gut rehabilitation activities to exceed the Energy Star for New Homes standard and require that moderate rehabilitation or energy retrofits will purchase only Energy Star products and appliances.

Rating Factor 5: Energy Efficiency Improvement and Sustainable Development Factors

c. Re-use of Cleared Sites

100 blighted homes will be acquired and demolished as part of Saint Paul's NSP2 plan. Because market conditions are not favorable for immediate redevelopment of these cleared sites, these properties will be land banked for future use. Per NSP2 regulations, these lots will be used for the development of new replacement housing within ten years. During this interim holding period, all of the demolition sites will be used as a community resource, such as community gardens or pocket parks, or they will be used to provide an environmental function such as floodplain impoundment areas.

Rating Factor 5: Energy Efficiency Improvement and Sustainable Development Factors

d. Deconstruction

The city is currently engaged in a pilot deconstruction program in conjunction with Ramsey County. Deconstruction techniques (salvaging and re-using materials) will be used for Saint Paul's NSP2 demolition activities.

Rating Factor 5: Energy Efficiency Improvement and Sustainable Development Factors

e. Other Sustainable Development Practices

Saint Paul's entire Target Geography is fully developed and urban. This assures that rehabilitation and redevelopment activity takes advantage of existing streets and transportation infrastructure. This is an area of dense, efficient interconnectivity of land uses. The entire Target Geography is well served by both community and retail facilities and all of the neighborhoods in the city are connected not only by streets and transit routes, but also by sidewalks and bike paths, providing a number of transportation choices.

The city's NSP2 activities will not take place within 100 feet of wetlands; 1,000 feet of critical habitat; or on steep slopes, prime farmland or park land.

The local watershed district mandates implementation of EPA's Best Management Practices for erosion and sedimentation control during construction.

Rating Factor 6: Neighborhood Transformation and Economic Opportunity

a. Consistency with Established Plans

The City of Saint Paul certifies that these proposed NSP2 plans are consistent with established comprehensive and regional plans. Minnesota state law (statute 473.859) requires the city's comprehensive plan to be in conformance with regional systems plans for transportation, aviation, water resources, and regional parks, as well as the growth management and affordable housing goals, all overseen by the Twin Cities regional planning agency, the Metropolitan Council. Municipalities throughout the Twin Cities metro area must update their local comprehensive plans every 10 years. The City of Saint Paul completed its most recent update in early 2009

Comprehensive plans must include a land use plan with a housing element. The housing element, or chapter, of the Comprehensive Plan, must contain standards, plans and programs for providing adequate housing opportunities to meet existing and projected local and regional housing needs,

including but not limited to the use of official controls and land use planning to promote the availability of land for the development of low and moderate income housing.

A Housing Task Force was established to oversee the development of the Housing chapter. This group met from October 2006 through June 2008. The Housing chapter was approved by the Planning Commission and City Council during the first quarter of 2009.

The Housing chapter details specific policies related to neighborhood revitalization and housing stock rehabilitation that support the proposed NSP2 activities.

- City of Saint Paul Comprehensive Plan website:
<http://www.stpaul.gov/index.aspx?nid=355>

Rating Factor 6: Neighborhood Transformation and Economic Opportunity

b. Increase Effectiveness of those Established Plans

All three strategies of the Housing chapter of the Comprehensive Plan detailed below in Figure 31 support the proposed NSP2 activities, as well as selected objectives and policies within them. Policies 2.13, 2.14, 2.16, and 3.1 are particularly supportive of the proposed NSP2 activities, and the implementation of NSP2 would greatly help the city be effective in implementing its Housing plan.

Figure 31: Elements of the Housing Chapter of the Saint Paul Comprehensive Plan that Support the Proposed NSP2 Activities

Strategy	Objective	Policy
1. Build on Saint Paul's strengths in the evolving metropolitan housing market.	Strategic housing growth	1.1. Increase housing choices across the city to support economically diverse neighborhoods.
2. Preserve and promote established neighborhoods.	Aggressive housing rehabilitation	2.3. Realistically weigh the market viability, maintenance needs, and neighborhood context of houses before providing public rehabilitation funds to them. Assessment criteria may include: <ul style="list-style-type: none"> a) The type and cost-effectiveness of "basic and necessary" improvements, including those that directly affect the safety, habitability, energy efficiency, and accessibility of a home. Basic and necessary rehab improvements are a top priority, and the City should coordinate with partners doing similar work without duplicating their existing lending or services. b) The concentration of units with similar exterior conditions in the vicinity. While "basic and necessary improvements" are of great benefit to the homeowner, exterior improvements can have significant neighborhood impacts. c) Possible synergies between the housing rehabilitation project and nearby public and private assets (schools, parks, community centers, new developments, infrastructure, and public art). d) Historic significance of the property.
		2.4. Improve energy efficiency and water conservation within the existing housing stock.

Figure 31: Elements of the Housing Chapter of the Saint Paul Comprehensive Plan that Support the Proposed NSP2 Activities (cont'd)

Strategy	Objective	Policy
2. Preserve and promote established neighborhoods (cont'd).	Neighborhood revitalization	2.13. Continue to assess vacant housing conditions with City/HRA partners such as community development corporations, nonprofit organizations, private developers, district councils, and block groups, and prioritize City/HRA revitalization assistance to areas with less vibrant housing markets.
		2.14. Promote existing and innovative new programs and incentives that support rehabilitation of 1-3 unit residential properties in areas with less vibrant housing markets. Such programs provide financing or incentives for the purchase and rehabilitation of substandard homes, typically for owner occupancy.
		2.15. Engage the investor and lender communities to revitalize areas with high concentrations of vacant housing and foreclosures
		2.16. Market programs to new homebuyers
3. Ensure the availability of affordable housing across the city.	Preservation of existing affordable housing units	3.1. Support the preservation of publicly-assisted and private affordable housing.
	New affordable housing production	3.2. Support new housing opportunities for low-income households throughout the city.
		3.3. Provide affordable housing in new production projects. For City/HRA-assisted new units, at least 30 percent will be affordable to: a) Rental households earning 60 percent of the AMI, of which at least one third will be affordable to households earning 50 percent of the AMI, and at least one third will be affordable to households earning 30 percent of the AMI. b) Ownership households earning up to 80 percent of the AMI, with at least one third of these units affordable to households at 60 percent of the AMI.